



ROSENTHAL | HENRY

CAPITAL ADVISORS

December 2022 Quick Overview Summary:

Summary Results Table: The table below presents our performance by quarter as well as the full 2022 data along with results from the past 3 years.

Results Table

2022	Fund 1 ¹	Fund 2 ¹	^BANK ²	KRE ²	S&P 500 ³	Russell 2000 ³
Q1 '22	-6.3%	-0.4%	-6.5%	-2.8%	-4.6%	-6.9%
Q2 '22	-13.3%	-13.9%	-13.9%	-15.7%	-16.6%	-18.3%
Q3 '22	0.9%	-1.2%	0.1%	1.4%	-5.4%	-2.5%
Oct.	10.1%	5.7%	8.4%	8.6%	8.0%	10.9%
Nov.	2.5%	2.0%	0.8%	0.9%	5.4%	2.2%
Dec.	-6.2%	-3.1%	-7.2%	-9.0%	-5.9%	-6.7%
Q4 '22	5.9%	4.6%	1.3%	-0.2%	7.1%	5.8%
YTD '22 ⁴	-13.0%	-11.2%	-18.4%	-17.1%	-19.4%	-21.6%
2021	37.7%	32.7%	39.7%	37.0%	26.9%	13.7%
2020	1.9%	-6.1%	-10.6%	-9.0%	16.3%	18.4%
2019	17.4%	22.7%	21.2%	27.1%	28.5%	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, 2022 – December 31, 2022

Given the current challenging investment environment, it is more common for us all to hear the adage that it's now a "stock pickers" market. As a professional investment advisory firm (not an Index Fund), that's ALWAYS been the case for us! It's our job/mandate to pick stocks that will cause us to outperform "an index".

It's never fun to have a down year like the equity markets experienced in 2022. But it is very important that we outperform the market as a whole. Again in 2022, we have done just that! It's little consolation in the near term for sure – but *very significant to the long-term results we strive to produce for you over time.*

This letter is just our *December Quick Overview Summary* – not our upcoming, full-throated *2022 Annual Letter to Investors*. (Please stand by and digest that when it's sent to you in February.) For now, we share that December was a down month and there was no Santa Claus Rally this year. Nonetheless, Q4 as a whole was positive. The headwinds in December can be summarized by the following bullet points:

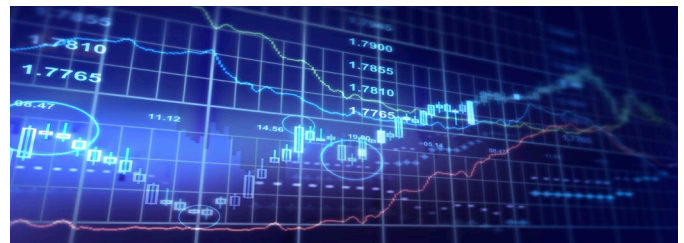
Macro Factors:

- Inflation Fears
- Recession Worries
- The Lingering War Against Ukraine
- Political Issues in Congress

Bank Specific Issues:

- Q4 Earnings Expected to Remain Very Strong
- The Potential Peaking of Net Interest Margins
- Uncertainty Regarding Future "Reserve Builds" for Loan Losses
- M&A Stagnant – For Now
- Additional Impact to Capital from Adjusted Other Comprehensive Income Marks ⁽¹⁾

(1) Bond portfolios are "marked to market" in the AOCI footnote and tangible capital calculation. With rising rates, most banks are experiencing markdowns in the value of their bond portfolios and tangible capital levels are impacted.





Given these issues, it is definitely a “stock pickers” market and our laser focus remains on owning community banks which have:

1. A balanced culture serving all constituents fairly over the long-term;
2. An historically low level of credit losses during various economic cycles driven by strong loan underwriting standards and diverse/granular loan portfolios;
3. Core funded deposit bases leading to asset sensitive balance sheets which will benefit most from higher interest rates;
4. Very strong overall capital positions regardless of marks against their bond portfolios;
5. Diverse revenue streams;
6. Attractive acquisition attributes; and
7. Operations in recession resistant, growth-oriented markets featuring universities and multiple medical centers.

In our upcoming *2022 Annual Letter to Investors*, we will provide a deeper dive into how we’ve managed to achieve positive variances from our benchmarks – both because of our individual stock picking – as well as the value-preservation techniques we’ve used. We think it will reinforce why you’ve engaged us to steward a portion of your wealth as long-term, conservative, value-oriented investors.

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

As always, 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.

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