

# FORTRESS PARTNERS

## E-Memo

**TO:** INVESTORS/MEMBERS/PARTNERS AND FRIENDS  
**FROM:** Jon Bruss & Ed Depenbrok  
**DATE:** April 30, 2019  
**SUBJECT:** Why we exist . . .

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***The foundation of a strong, free economy is a diverse and competitive banking system. We believe interested, proactive shareholders promote efficiency and good performance, while fostering a healthy banking and economic system.***

**Mission.** Since 1991 our mission has been to be the provider of uncommon investment and portfolio management and, consulting services rooted in the industries of community banking and financial services. Our activities are designed to build and preserve wealth of our investors and clients. At the same time, we are supporting a diverse and competitive banking system. We do this while acting as interested, proactive shareholders focused on promoting efficiency and good performance of the community banks in which we are invested—our way of fostering a healthy banking, economic and financial system.

**Experience.** Our approach is based upon nearly nine decades of combined experience earned by our investment team in executive management of bank and financial services companies., We've managed federal and state regulatory relationships and compliance and, investment analysis and investment management of community banks. Our experience is augmented by extensive industry-related investment research and portfolio management. We strive to provide competitive portfolio performance through investments concentrated in community bank and thrift equities. Investments in community banks and thrifts have, as class, provided better returns than shares represented by the broader market indices.

**Communication with Clients and Investors.** We provide investment services to institutional and individual investors who, believe with us, that interested and proactive shareholders promoting efficiency and good performance, will foster a healthy banking, financial and economic system.

Of particular importance is that "we eat our own cooking"—we are invested along with our investors—our interests are aligned with those of our investors. We insist that the management teams and directors of the banks in which we invest eat their own cooking as well. This helps assure that their interests are aligned with ours by being financially invested in the banks they manage just as our interests are aligned with our investors because we are invested along side them. We expect the managers of the banks in which we are invested to provide a high level of transparency and communication with us. So we have the same commitment to our investors to enable them to accurately assess the basis for their trust in us.

**Communication with Bank Management.** We regularly visit with the executives of the community banks in which we are invested in their offices, at industry conferences, via telephone, e-mail and our E-Memos. We communicate in writing with our investors quarterly with a several page narrative, a balance sheet and profit and loss statement of the Fund along with a Portfolio Appraisal Report and a Statement of Changes for each investor.

Never was the importance of transparency and communication with our investors and from the banks in which we invested than beginning in 2007 through 2018 when we formed and managed two limited partnerships, Fortress Partners Banc Ventures I, LP and Fortress Partners Banc Ventures II, LP designed to invest in exclusively privately owned community banks through out the United States. Privately held banks are not held to the same communication and transparency standards as those that are publicly traded. This means that we need to develop a conversational relationship undergirded by our combined

bank management and governance experience of almost 90 years. We believe we have succeeded in accomplishing those relationships with the banks in which we were invested in the two Banc Ventures partnerships and with the banks in which we are invested today in FFP BankManagers Fund, LLC.

**Finding a Good Bank Investment.** As with all our community bank investing activities, we seek exceptionally well managed banks in markets that are growing faster than the US economy or markets where there has been disruption caused by bank mergers.

A recent example of this disruption (of lending officers and client-borrowers) is taking place throughout the Mid-Atlantic, South and Southeastern regions with the proposed Merger of Equals (MOE) of BB&T (a/k/a Branch Bank & Trust) with SunTrust Bank creating a \$450 billion behemoth. We are well represented with 7 banks, both privately held community banks and publicly quoted community banks located in Pennsylvania, Tennessee, Alabama, and Florida; states in which these two banks have extensive branch systems. The opportunities for our banks in those states are just now becoming apparent and will be even more evident if and when the MOE receives regulatory and shareholder approval.

Last year we invested in a \$350 million asset "platform bank" in Raton, New Mexico with several branches in New Mexico and locations in the Denver, Colorado area and in southern Colorado (Trinidad). We were joined in this acquisition by several of the community bank-oriented institutional investors with whom we've been involved in the past. With this bank acquisition, we were able to check the boxes of experienced, local management and directorate, strong and growing local market (Denver), an integrated business and capital plan, good regulatory relations and a strong focus on loan quality and so on. Several months following our investment decision, a bank in Texas (Independent Bank Group) announced that it had acquired the \$3.8 billion asset Guaranty Bancorp (a community bank) for a price of 319% of tangible book value (one of our funds owned Guaranty) and, within a month of that announcement, and as we were making our investment in InBankshares, a bank headquartered in Tulsa (BOK Financial) announced that it had acquired CoBiz, a \$3.8 billion asset commercially-oriented community bank in Denver for a price of 289% of tangible book value.

The two Denver transactions and the *proposed* Merger of Equals of SunTrust Bank and BB&T made us look really smart—or very blessed. Or as my late colleague, Don Zellmer, often said, "God watches out for dummies."

The only way we can deliver on the promise to promote a strong and free economy is by being interested and proactive shareholders focused on the efficiency and performance of the banks in which we invest. That is our commitment!

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