IRON BAY CAPITAL

# Iron Bay Fund, LP

**MONTHLY PERFORMANCE,** ***NET OF FEES***

**May 2020**

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | (7.28) | (8.74) | (34.61) | 8.27 | (5.65) | -- | -- | -- | -- | -- | -- | -- | **(43.48)** |
| **2019** | 8.16 | 4.01 | (5.55) | 3.79 | (4.79) | 4.89 | 2.52 | (6.57) | 5.10 | 2.97 | 4.57 | 3.10 | **23.09** |
| **2018** | 1.13 | (1.62) | 1.28 | .22 | 3.73 | (.22) | (1.36) | .61 | (3.10) | (10.40) | 1.26 | (14.87) | **(22.36)** |
| **2017** | 1.64 | 2.13 | (.06) | .20 | (2.50) | 3.19 | (.14) | (1.09) | 6.06 | .65 | 2.82 | (1.88) | **11.26** |
| **2016** | (7.38) | (3.72) | 4.99 | 4.91 | 1.37 | (1.60) | 3.82 | 3.93 | (.19) | (.09) | 12.18 | 7.51 | **27.14** |
| **2015** | (6.42) | 4.57 | 6.43 | (.79) | .27 | 3.23 | 2.19 | 1.66 | 1.61 | 3.54 | 4.42 | .39 | **22.54** |
| **2014** | (.43) | 1.34 | 1.31 | (3.39) | .85 | 1.52 | (3.59) | 1.08 | (2.75) | 8.94 | (.52) | 5.22 | **9.27** |
| **2013** | 4.58 | .74 | 1.62 | (1.65) | 1.62 | 2.45 | 5.99 | (2.10) | 2.30 | 1.38 | 4.20 | 1.12 | **24.30** |
| **2012** | 2.42 | .57 | 3.09 | (1.01) | (2.59) | 2.59 | .06 | 1.98 | 3.12 | .37 | (.91) | 2.49 | **12.67** |
| **2011** | -- | -- | -- | -- | -- | -- | -- | -- | (.64) | 3.05 | .91 | 1.66 | **5.04** |

**OVERVIEW:**

Stocks rallied in May, triggered primarily by an accommodating Federal Reserve, reports of the economy re-opening and anticipated progress on a COVID-19 vaccine. The usual "sell in May and go away" did not take affect as greater optimism surfaced that we may be on the other side of the pandemic. The Dow Jones Industrial Average rose 4.26%, while the S&P 500 Index advanced 4.53%. Small-cap community banks showed some resilience, bouncing off mid-month lows, to finish down slightly. U.S. & China tensions remain heightened as the Commerce Department again curtailed Huawei Technologies' access to semiconductors that use U.S. technology. Market analysts suggest this hostility could bring countering retaliatory actions that would impact global markets. Also not helping, the saber-rattling from the Trump administration, as they ordered federal employee retirement funds NOT to invest in any index that includes Chinese companies.

Economic data showed signs of recovery in May, albeit from an exceptionally low base. New home sales gained, and US consumer confidence stabilized as lockdown restrictions began to ease. Empire State manufacturing index data came in better than expected (slower rate of decline) in May. Overall mortgage applications rose for the 4th straight week yet refinancing slowed slightly. Treasury markets are still trading at historically low yields that are more consistent with depression than recovery. Encouragingly for banks, at least for the time being, Federal Reserve Chairman Jerome Powell reiterated that he is opposed to negative rates, "The path ahead is both highly uncertain and subject to significant downside risk."

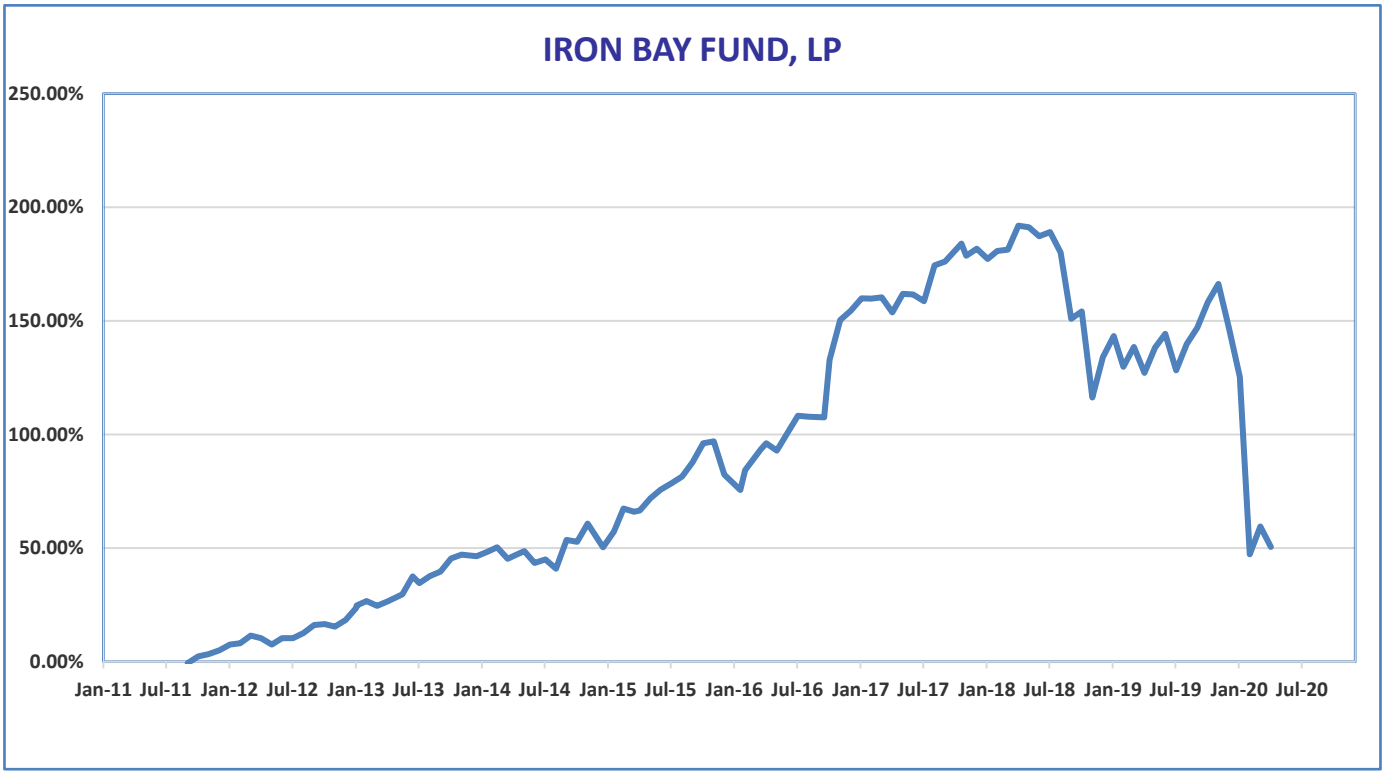
It will be exceedingly difficult to establish the pace of recovery until there is more definitive data on the virus including vaccinations, anti-body testing and chances of a re-occurrence. Prior to the pandemic, the consumer led the economic activity. Consumers are now very much focused on their financial well-being which could curtail spending. Unfortunately, at month end widespread rioting throughout the country has set the recovery back and it is unknown to what extent small businesses will feel comfortable opening their doors until there is some semblance of peace and order.

*(continued)*

As has been our practice in more trying times, we are communicating more regularly with bank management teams directly. Our calls this month centered on overall loan portfolio stress, requests for forbearance & loan modifications and the results of the beleaguered PPP lending program. Bank investors remain particularly interested in details of the reopening of local economies and what happens to loans in forbearance, after the initial 90-day grace period. Management teams we spoke to reported being focused on helping their clients (and employees) weather the current storm. Prudently, most banks dramatically increased loan provisions in the first quarter to accommodate for the potential disruption in payments and loan losses. For our holdings specifically, we have seen significant institutional changes, as referenced in prior letters, due to fund liquidations and liquidity needs. However, after speaking to management, we remain optimistic based in part on insider buying, resilient local economies and an overall comfort that credit portfolios will hold up in the long term. Again, and this cannot be stressed enough, banks are better capitalized and have more diverse revenue streams than they did when going into the financial crisis of 2007-09. Barron's highlighted very narrow breadth in the Nasdaq markets and pointed out that value stocks are where they were in 2000 and 2009 coming out of recessions.

In closing, we would expect a return to a more regular pace of M&A, as we have greater clarity around the economy reopening. Banks that have not invested in technology and who lack organic staying power, will look to partner. Banks will need to get bigger to compete in the new world and the coronavirus pandemic has only served to accelerate this process. If you would like to arrange a call to further discuss our outlook, please let us know.

**GRAPH:**



# Iron Bay Fund, LP

IRON BAY CAPITAL

**RETURN DATA:**

| | |
|---|---|
| *Total Return Since Inception* | 50.45% |
| *Annualized Return from Inception* | 4.78% |
| *Average Monthly Return* | .55% |
| *Std. Deviation of Monthly Return* | 5.30% |
| *Sharpe Ratio Since Inception* | .22 |
| *Beta Since Inception vs. S&P 500* | .66 |

| | IRON BAY FUND, LP | NASDAQ BANK INDEX | RUSSELL 2000 |
|---|---|---|---|
| ***May 2020*** | (5.65%) | (1.37%) | 4.52% |
| ***YTD*** | (43.48%) | (31.99%) | (16.45%) |
| ***Last 12M*** | (33.75%) | (21.92%) | (4.88%) |
| ***Last 3Y (Annualized)*** | (15.99%) | (8.70%) | .58% |
| ***Last 5Y (Annualized)*** | (2.01%) | (.27%) | 2.24% |
| ***Inception (Annualized)*** | 4.78% | 6.63% | 7.74% |

**All reported Iron Bay Fund, LP returns are NET OF FEES.*

# Iron Bay Fund, LP

| SERVICE PROVIDERS & INVESTMENT TERMS | |
|---|---|
| Fund Manager | Robert Bolton |
| Management Fee | 1.75% |
| Performance Fee | 20% |
| Lock Up | None |
| Redemptions | Quarterly with 60 Days Notice |
| Administrator | Virtus Partners |
| Auditor | KPMG |
| Prime / Custodian | TD Securities |
| Legal | Woods Oviatt Gilman, LLP |

## CONTACT INFORMATION


**Iron Bay Capital**
350 Linden Oaks
Suite 140
Rochester, NY 14625
(585) 348-9226

rbolton@ironbaycapital.com www.ironbaycapital.com


**Partnership Overview:** Iron Bay Fund, LP is a limited partnership that focuses on investing in the securities of US domiciled, publicly traded financial services companies, particularly community banks. The Partnership has the ability to sell short securities and may utilize moderate leverage in an effort to enhance returns. Iron Bay Fund, LP seeks to invest in companies that have attractive valuations based on fundamentals, merger and acquisition opportunities, increasing dividend payouts and above average capital deployment opportunities. Investments are selected using in-depth fundamental research, supported by robust trading discipline and risk management techniques.