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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Preserving Capital with a Focus on Quality and Value

ERIC TEAL is the Chief Investment Officer and Managing Partner of Queens Oak Advisors. He has overall responsibility for the firm's investment strategy and results. He is directly responsible for equity portfolio management. He also serves as the Chief Compliance Officer and oversees the firm's adherence to all compliance and regulatory standards. Additionally, Mr. Teal helps establish the strategic direction and growth for the firm. Earlier, he worked at First Citizens Bank and Evergreen Investments. Mr. Teal received an MBA from the University of Memphis and a degree in economics and international studies from Rhodes College. He is President of the Alumni Executive Board for Rhodes College and Chairman of the board at UNC-TV, statewide public media network.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Teal: The firm is an asset manager that's focused on managing investments for high net worth individuals and institutional clients.

TWST: Does it have a unique investment philosophy?

Mr. Teal: We do have a unique philosophy in that we tend to be high-quality investors, value-minded investors, and we believe by focusing on quality and value we can deliver superior performance over time. Although that's not our only goal, we want to make sure that we try to deliver solid performance with less-than-commensurate risk for our investors. We really try to have a high batting average and avoid failures in our investment approach.

TWST: You mentioned some of your investors are high net worth individuals. What are some of their concerns now as they look at the market and the economy?

Mr. Teal: Well, I think valuation has become more and more important as markets are at all-time highs. And so that's why I believe that having a quality and a value orientation helps preserve capital — as we know downdrafts will occur. Many of our clients look to us to invest in a single asset class or even multiple asset classes, so we really have to test our insights into the capital markets and to put together a portfolio that can deliver growth at a reasonable price but maintain characteristics of capital preservation in down markets.

TWST: Are the concerns similar among your institutional clients?

Mr. Teal: No, the institutional clients tend to have a much longer horizon, less concern about daily volatility and more focused on the long-term goals of the institution rather than issues related to retirement or financial planning. So both have unique objectives, and we try to tailor and customize portfolios to meet those objectives.

TWST: So for some of the institutional clients, they might be concerned about making sure they have enough money to keep their operations going as opposed to some kind of long-term goal like retirement?

Mr. Teal: Yes, there are concerns with return assumptions while trying to meet a specific objective over a short to intermediate horizon. So when we've had volatile markets, like we have had over the last few years, funding status has been volatile, resulting in shifts in the asset allocation. This is a much different challenge than the individual investor faces.

TWST: Did you want to highlight a stock that you find interesting right now?

Mr. Teal: Being a value investor, one of the more forsaken areas of the market has been the energy sector. The sector has been out of favor because of declining oil and gas prices. We think that energy is an attractive sector based on valuation. Ultimately, we believe the sector will benefit from the administration's approval of energy infrastructure projects and increased spending — and also benefit from tax reform.

A company like **Chevron** (NYSE:CVX) would meet our investment criteria. **Chevron** has an attractive global asset base and exhibited top production growth and margins versus many of the other integrated companies. Their weaker margins in the global downstream sectors have hurt results, but they have demonstrated improved cash flow with recent asset sales. Lower spending and increased dividend growth makes us attracted to **Chevron**.

TWST: Does Chevron or some of the other oil companies basically transform from being a supplier to North America and some other limited regions to maybe a global supplier, the way maybe some of the OPEC countries have been, or isn't it going to get to that level?

Mr. Teal: Yes, **Chevron** and **Exxon** (NYSE:XOM) would fit into the category that you mentioned. The risk, like OPEC, is that the valuation becomes more tied to crude oil prices, which has continued to grind lower. **Chevron** has above-average exposure to oil prices, resulting in stress on their upstream results and execution of major capital projects.

Mr. Teal: Yes, I think both of these banks are well-positioned for loan growth, and I think favorable administration policies will promote business lending.

TWST: And I noticed both of these banks are the larger regional-type banks. Do you have any feeling about some of those well-known global banks that in the past decade were seen as too big to fail, and they had their ups and downs with regulators? Are they positioned to do well, too, or do investors want to keep their eyes more on the regional banks?

Mr. Teal: I think that the largest money center banks are also positioned to do well. Their market share has increased since too-big-to-fail legislation, and I think, in many cases, the largest banks are in the best position to benefit from the ongoing commoditization in financial services. The banking sector has become very polarized, with larger and regional banks doing very well with high operating leverage, and smaller banks with a relationship-based service model doing better. Yet, we tend to focus on the money center banks or the regional banks that have enough scale and operating efficiency.

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TWST: Do you want to mention another company?

Mr. Teal: Well, for value investors, the largest area of the market is the financial sector. Financials are as important for value investors as technology is for growth investors. The financial sector tends to be most correlated right now with the administration's success or failure — in particular, the repeal related to Dodd-Frank regulations and the regulations that are related to changes in the bank stress tests. Banks have been the largest gainers since the election, and we think they will also benefit, like the energy sector, from tax reform.

Two banks that we would highlight and recommend would be **Zions** (NASDAQ:ZION) and **PNC Bank** (NYSE:PNC). Both banks are commercially focused but have a diversified revenue stream and overly benefit from a steepening yield curve while showing a history of controlling expense growth. **Zions**, in particular, has seen improved loan growth. Their deposit costs are low, and they have multiple levers to continue to grow earnings per share. **Zions** is relatively inexpensive compared to other regional banks.

PNC, on the other hand, is a more diverse regional bank that has solid growth in fee income and strong increases in net interest margin, with modest expense growth. We think with the continued strong credit quality and reasonable valuation of **PNC**, as well as **Zions**, both should outperform other banks in the current environment.

TWST: Do you think banks like these, the big regional banks, will start to lend more money to business? I guess that in the past decade there's been a struggle sometimes for businesses to get commercial loans, and do you think that might change?

Highlights

Eric Teal discusses Queens Oak Advisors. The firm manages investments for high net worth individuals as well as institutional clients. Mr. Teal aims to deliver superior performance with less risk. When choosing investments, he focuses on quality and value. This helps him to create a portfolio that offers growth at a reasonable price and capital preservation in down markets. Mr. Teal also tries to customize portfolios to meet his clients' unique objectives. For example, institutional clients are more concerned with the long-term goals of the institution and are less concerned with daily volatility. On the other hand, individuals in or nearing retirement are focused on capital preservation, leaving money to their families and meeting philanthropic goals.

Companies include: Chevron Corporation (NYSE:CVX); Exxon Mobil Corporation (NYSE:XOM); Zions Bancorporation (NASDAQ:ZION); PNC Financial Services Group (NYSE:PNC); PulteGroup (NYSE:PHM) and Lennar Corporation (NYSE:LEN).

TWST: Do you think that there might be more acquisitions in the sector in the next few years given that some of these regional banks might be doing pretty well?

Mr. Teal: I think that would be another tailwind for investors. Even after a period of high bank failures and modest consolidation, I believe that there are still too many financial institutions and largely too many banks. Consolidation may reaccelerate as many of the larger banks have bought back shares and raised dividends, and now they will use capital to make acquisitions.

TWST: I guess that if these regional banks start offering more in commercial loans to the kind of Main Street businesses, we might see some job growth and some other things that the Trump administration has considered important?

Mr. Teal: Yes, if we see growth in the financial sector portfolio, then I think we will see jobs follow in the broader economy.

TWST: What about the startups or the existing companies that these banks might lend to? Do you think they could be expanding if they got some commercial loans, and those might lead to more jobs?

Mr. Teal: I do. I believe that credit creation is at the heart of the U.S. economy and that the banks play the pivotal role in that process. So to the extent that the administration wants to really grow the economy, the banks will play an important role in that growth, which is why reducing burdensome financial regulation is important.

1-Year Daily Chart of Chevron Corporation

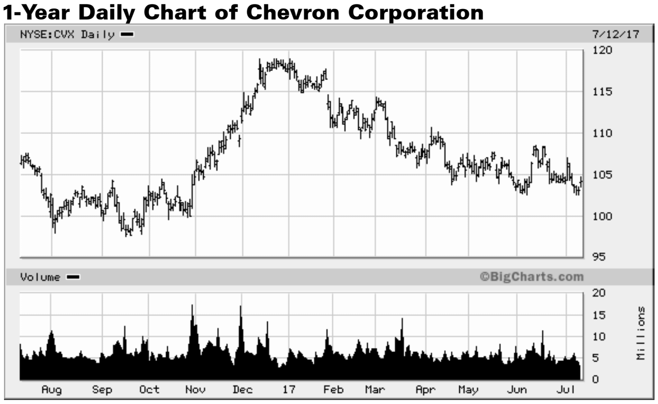

Chart provided by www.BigCharts.com

TWST: Did you want to mention another company?

Mr. Teal: Related to the financial sector is the homebuilding sector, which has looked more attractive over the last few years. In particular, the industry leaders continue to really focus on their operating margins and inventories while paring down their land investments to boost returns. The outlook for their earnings-per-share growth and ROE expansion is most favorable, and we believe that multiple expansion can occur within the homebuilding sector. The valuation of the stocks remains attractive, and **PulteGroup** (NYSE:PHM) represents a discount relative to other homebuilders, and coupled with their share buybacks, we think that **Pulte** is an attractive investment.

TWST: And related to that, do you think the Millennial generation might start to look into homeownership itself, now that they might have a little better job outlook?

Mr. Teal: Yes. I think as confidence gets restored in the real estate market, which it takes often a decade to do after a housing bubble, then the Millennial generation will come back into the housing market — not at a robust level, because I do believe Millennials are focused on experiences rather than ownership.

TWST: So for some of the Millennials looking to buy a house, it may not be like the 1950s suburban house search; it might be a section of a city that might appeal to them, or it just might be a different lifestyle that they're looking for?

Mr. Teal: Yes, I think it's more urban with more amenities and conveniences than the traditional suburban-neighborhood home. The shift in preferences is important, and to the extent that the homebuilders create communities that capture these types of preferences, I believe they'll be well-positioned to grow market share.

TWST: And Pulte and some of their colleagues in that field understand that emerging trend?

Mr. Teal: Yes, I think the successful homebuilders like **Pulte**, and even **Lennar** (NYSE:LEN), have developed a good understanding of those secular trends of Millennial buyers.

TWST: Do you think that investors in the country as a whole have learned a lesson from the Dodd-Frank bill? When it was implemented, there were certain political goals, and it seems like it's been problematic for certain companies along the years.

Mr. Teal: The Dodd-Frank regulations were so extreme that they began to impede financial and economic activity. There is a need for oversight and regulation, but it is imperative to grow the economy, and regulation comes at a high cost. This time, a lot of the changes will be in the stress-test modifications that can benefit banks — freeing up more than $100 billion in excess capital on their balance sheet. Smaller changes, such as modifications to the Volcker Rule, are also likely. Regulation tends to swing very drastically following a financial crisis, and then, as financial conditions improve, the industry is able to better self-regulate, at least until the next financial crisis.

TWST: And one final question: When you interact with those of the Baby Boom generation, what's on their minds now when they think about investments? Many of them are at retirement or nearing retirement, and some of them might want to leave some of their assets to children or grandchildren. Any thoughts about that generation?

Mr. Teal: Well, I think they're risk-averse because they experienced the technology boom and bust, and the real estate and financial crisis collapse. And so if you look at this correction pattern of every eight to 10 years, then obviously, someone in the Baby Boom generation would not have the investment horizon to build back up wealth. So they are focused more on capital preservation at this stage. Likewise, I think they identify with a quality approach to investing and a value-minded approach that we happen to employ — just knowing that a lot of the low-quality and high-momentum investing trends have gone in and out of favor, and it has been costly for investors to be on the wrong side of those trades.

TWST: And do you get a sense that some of them are thinking about leaving assets to their children or grandchildren, or is that not as much of a priority for them?

Mr. Teal: I think it is a high priority. But I think they also have important charity and philanthropic goals that they want to meet as well, which is why understanding the goals and objectives of the family are so important to successful investing.

TWST: Thank you. (ES)

ERIC TEAL
Chief Investment Officer & Managing Partner
Queens Oak Advisors
6101 Carnegie Blvd.
Suite 360
Charlotte, NC 28209
(704) 547-3100
(866) 791-4321 — TOLL FREE
www.queens-oak.com
e-mail: info@queens-oak.com

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Tel: (212) 952-7400 • Fax: (212) 668-9842 • Website: www.twst.com