REPRINTED FROM MARCH 4, 2019

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Maintaining a Focus on Quality and Valuation in the Late Stages of the Recovery

ERIC M. TEAL is Chief Investment Officer and Managing Partner of Queens Oak Advisors, a position he has held since August 2015. He has overall responsibility for the firm's investment strategy and results. This includes overall responsibility for asset allocation and directing portfolio management, research, trading, planning and risk management. Also, as Chief Compliance Officer, he is responsible for the firm's adherence to all compliance standards. Additionally, he helps oversee the strategic direction and growth of the firm. Previously, he was the Chief Investment Officer of a regional bank and led the organization's Capital Management Group for over 10 years. Formerly, he was Director of Equities for a Boston-based mutual fund company for nearly 10 years. He has a B.A. degree in economics and international studies from Rhodes College. He also is the past President of the alumni executive board for Rhodes College. He has an MBA from the University of Memphis and studied at the London School of Economics. He is on the board of the Echo Foundation and also on the UNC-TV board of trustees and serves as Board Chairman.

SECTOR — GENERAL INVESTING

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

Mr. Teal: We are an investment management and financial planning firm focused on adding value through asset management and working with clients holistically on all aspects of wealth management, including special programs oriented toward women.

TWST: And do you work on some specific funds?

Mr. Teal: We manage large-cap value investments as well as perform broader asset allocation work. We primarily focus on value investing for clients within their individual stock portfolios and have been doing this for quite some time.

TWST: And the last time we spoke, I believe we spoke about BB&T, and I understand that there was a merger involving BB&T. Could you give us an update?

Mr. Teal: Most recently, there was a merger of equals between **BB&T** (NYSE:BBT) and **SunTrust** (NYSE:STI), which is a combination of two notable regional banks in the Southeast. We have thought for some time that there would be continued consolidation within banks and financials, but this is the biggest merger in nearly a decade since the financial crisis. We think the consolidation among regional banks will continue to occur as there is a need for scale and operational efficiencies within the banking industry.

In this case, the banks have goals to eliminate nearly $1.6 billion in annual operating expenses largely by focusing on operational and technology efficiencies as well as overlapping branches and consolidation. We think that the merger makes sense for investors and will create a combined entity that's the sixth-largest bank in the country — with scale and size to compete with the largest banks in most areas of financial services.

TWST: And in this case, it sounds like it was a merger of two organizations of equal size, and sometimes with banks, it's one larger bank acquiring some smaller local or regional banks? Is that going to continue happening too?

Mr. Teal: Yes. The banking model is becoming more polarized with larger capital-markets-oriented banks like **JPMorgan** (NYSE:JPM) and **Bank of America** (NYSE:BAC) in urban markets and then, on the other hand, community banks, which are more focused on the relationship-based model and are often in rural markets. We think that there will continue to be consolidation and a necessity for regional banks to combine forces to create the type of scale and operational efficiencies that banks now require.

The industry is going through a lot of transformational changes, including the viability of branches and mobile and online tools. Millennials are less interested in a relationship with banks and financial institutions. Additionally, there are many nonbank competitors and companies like **Goldman Sachs** (NYSE:GS) that now offer checking accounts and branch access and compete with traditional banks across a broad spectrum of products and services.

TWST: And there are certain services that businesses and even some of the individual customers might want. You may not be able to offer that in a smaller or midsize bank, and you need size to offer some of these services. So is that another benefit with the consolidation through mergers and acquisitions?

Mr. Teal: Yes, absolutely. In so many areas of financial services, there is a scale imperative to effectively compete, particularly in areas like capital markets and wealth management. These segments require ongoing consolidations and a model of efficiency. Moreover, in an environment where net interest income margins are shrinking, I think management should consider returning more capital to shareholders through dividends.

TWST: Did you want to mention another company?

Mr. Teal: Within the financial sector, outside of banking, we do like insurance providers such as **MetLife** (NYSE:MET). **Met** has an attractive dividend yield significantly above the market and the industry peer group. They've had solid earnings growth as well as dividend growth over the past several years. Their earnings have continued to accelerate primarily with disciplined expense management. And so given their diverse exposure to life insurance, asset management and small businesses, and our view that claims will be lower within the insurance industry over the next year or two, we think that **MetLife** looks attractive, particularly given their exposure in the U.S. as well as internationally.

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TWST: And what is the direction that they might be going in that might be of interest to investors? I know there was a merger between CVS and an insurance company, which could lead to certain types of directions in the health care field. Does MetLife have something that they might be focusing on in the coming years, or is it pretty much more of the same?

Mr. Teal: I don't think there's a strategic approach that includes pharmacy or retail that **Met** will employ like some of the insurance companies you mentioned. They are an established firm with diverse profit mix in some attractive, high growth business lines.

TWST: And did you want to mention another company?

Mr. Teal: A company that is outside of the financial sector that was sold off late last year was **BorgWarner** (NYSE:BWA). It fell in response to the trade and tariff concerns with China. **BorgWarner** stock has since stabilized and has had a strong start in 2019. The company does have exposure to tariffs with China, but they have really rationalized their product offering, including selling off the thermostat business last year, and their products offer good exposure to hybrid and electric technologies and motor vehicles. And so the recent decline in stock price, I think, gives a unique opportunity for investors to own a company that is trading at a forward p/e in the single digits, offering long-term growth in many attractive areas, particularly within light vehicle sales.

TWST: And they're involved a lot in automobile industry components and parts?

Mr. Teal: Yes, from engines and drivetrains to emissions, they sell to original equipment manufacturers and are at the forefront of cleaner and socially responsible technologies within the auto industry.

TWST: And I understand that they also provide products for powertrains, such as transmissions. A lot of people are getting those extended warranties now on their vehicles. Does that impact them at all?

Mr. Teal: I am unsure on the impact of extended warranties. They are, however, the leader in a lot of clean technology solutions for automakers but also are a leader in aftermarket products. And to the extent that we have more environmentally friendly regulations, then **BorgWarner** has a lot of the cleaner technology solutions needed for the industry.

TWST: So when states like California and other places implement tighter regulations, a company like this could sell more specific products to meet those needs?

Mr. Teal: Precisely. California has been the state with more requirements, regulations and standards in the industry. **BorgWarner** will be a leader in the market for combustion engines and will benefit from the pickup in demand for hybrid and electric vehicles.

TWST: And did you want to mention one final company?

Mr. Teal: We continue to like within financials the superregional bank **PNC** (NYSE:PNC), which is about the combined size of the **SunTrust** and **BB&T** merger in the Northeast. **PNC** has a well-diversified portfolio, a quality balance sheet and is likely to continue to expand in attractive markets in the Southeast and Midwest. We also like the valuation, yield and expense management at **PNC**.

TWST: And what might investors see in the next year or two from them? Could they be interested in acquiring some smaller banks?

Mr. Teal: Yes. I think that **PNC** will seriously look at growth through acquisition. They were aggressive in acquisitions during the financial crisis and expanded their footprint significantly. But like we commented on earlier, there have really been few major acquisitions. And so I think that many of the midsize regional banks might look to merge with the likes of **PNC** or some of the other large regional banks in an effort to gain more scale and operational efficiencies.

TWST: And the last time we spoke, there was a correction going on, and it got more pronounced at the very end of the year. From the point of view of customers and clients that you talk to, what's on their minds now as they look at 2019, and how will they respond to that December correction?

Mr. Teal: The December correction was quite sharp, with really most asset classes being impacted. And many quality

Highlights

Eric M. Teal discusses Queens Oak Advisors. Mr. Teal focuses on quality and valuation, and he believes that is important in the later stages of the economic recovery. Mr. Teal thinks there will continue to be consolidation among regional banks. He explains that there is a need for scale and operational efficiencies within the industry. Despite the sharp correction in December 2018, Mr. Teal encouraged investors to stay the course and take advantage of the pullbacks. He notes that there has been a strong rebound in the early part of 2019, especially within industrials and energy.

Companies discussed: BB&T Corporation (NYSE:BBT); SunTrust Banks (NYSE:STI); JPMorgan Chase & Co. (NYSE:JPM); Bank of America Corp. (NYSE:BAC); Goldman Sachs Group (NYSE:GS); MetLife (NYSE:MET); BorgWarner (NYSE:BWA) and PNC Financial Services Group (NYSE:PNC).

companies were oversold, some due to tax-loss harvesting strategies, others due to fear of a Fed policy mistake or ongoing trade disputes and tariffs with China. We encouraged investors to stay the course, to take advantage of pullbacks and to add capital to those securities that were oversold.

Since that time, we've seen a strong rebound in the early part of this year, particularly in the industrial sectors and energy sectors that were most impacted in late 2018. So a focus on quality and valuation we think is important as we get into the later stages of the economic recovery. The pullback I think helped us reconfirm

1-Year Daily Chart of MetLife

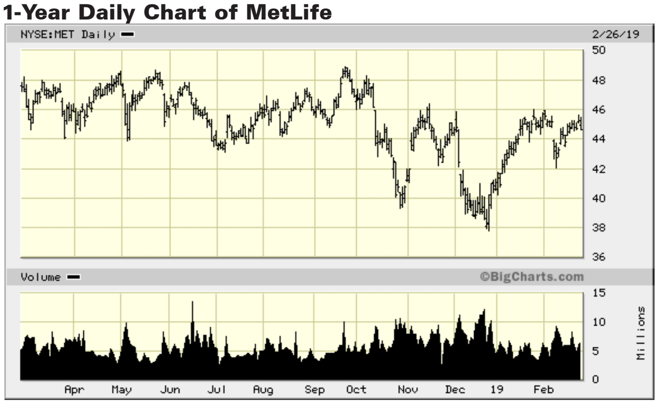

Chart provided by www.BigCharts.com

our convictions and find opportunities in investments in industries that were oversold.

TWST: Do you think the correction that we saw in December is going to have any long-term impact on the financial services industry, or is it basically going in a direction that wasn't impacted much?

Mr. Teal: I think to the extent that housing stays steady, then the financial sector will remain healthy. However, as mortgage rates started to increase last year, we observed some softening in the housing market, not to suggest that we're approaching any type of housing or real estate crisis, but paying attention to the strength of the housing market is an important barometer for loan growth and health within the banking industry.

TWST: Is there anything we didn't talk about you care to mention, either about the firm or about some trends out there?

Mr. Teal: I think that for the last several years, we've been in an environment where ETFs and passive management or index management have done well compared to active management. As the business cycle matures, I think stock selection will become ever more important and active management should exhibit strength versus passive management. And so investors ought to be mindful of their risk budget, knowing that some asset classes are more efficient and might be better suited for passive investing, whereas other asset classes are less efficient and active management should prevail in this environment, suggesting that high active share and concentrated portfolios have an edge to deliver alpha.

TWST: Thank you. (ES)

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