INTEROFFICE MEMORANDUM

TO: WAYNE GOLDSTEIN, ENDICOTT GROUP

FROM: JOHN P. MCCARTHY

SUBJECT: TWENTY GOOD QUESTIONS

DATE: FEBRUARY 5, 2021

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1. You left a growing investment bank, which dominated its market, to start a small money manager. What were the early days of Endicott like?

I was motivated to leave Sandler O'Neill for 2 main reasons: 1) I wanted to be an investor rather than an advisor. Having built Sandler during the S&L / economic crisis of the late 80's, I realized that I would prefer to be on the other side – investing rather than advising. 2) As the first employee, I saw the growth (good and bad) of the firm, as we ballooned to 200+ people quickly. I much preferred when we were lean, rather than large and siloed.

The early days of Endicott were exciting, as we grew from scratch and Rob and I had to do everything. The initial move – leaving an established firm, being senior and important, was humbling. That is actually a good experience to have. But there is nothing as invigorating or exciting as building a business. I look back thinking about how great those days were. We worked out of a former closet that a broker dealer rented to us. What a great time.

2. You have managed public and private equity. What are major similarities and differences?

From our perspective, the primary similarity is the role of being a fiduciary. We take this very seriously. Protecting capital, executing strategy, taking our role very seriously, and not taking anything for granted. Having managed in both, the biggest difference is perspective / time frame. When we started the hedge fund, funds were judged annually, sometimes quarterly. In the early days, we

received a portfolio summary and pricing on a daily basis with a package left under our door. That quickly became online reporting, available real time. As this developed, investors started focusing on quarterly, then monthly, and sometime even weekly returns. It is very hard to be a value-oriented long-term investor reporting weekly, monthly and quarterly returns. In the private equity space, you can focus on the longer-term goal of doubling or tripling money; you can help companies make good long-term decisions; and you can think strategically. All along the way, you can navigate cycles. In both cases, entry price often drives returns, but developing relationships with managements and boards can impact value creation in PE much more so than in the public market.

3. Any evolution in your own investment philosophy over the last 10 years?

A. Rephrasing the question to lessons learned, I refer back to a letter we wrote about lessons learned / mistakes made during the hedge fund days. Our biggest mistakes were getting too close to management where we trusted them more than we did our analysis. Don't get too close to management.
B. Specifically answering the question – I have learned that being a value investor doesn't mean only buying things that seem cheap. There are other ways to identify value and to manage risk / return. Certain cheap investments will be "perma-cheap," while certain highly valued companies present value in a different way.

4. What are major changes do you see in banks over your career?

Wow. We can talk for a long time about this. In short, technology and flow of information has played through the sector by removing all monopolies that previously existed, mostly based on geographic market share. Before banking regulations changed, a bank owned its market physically and by controlling all relevant data. Today, there are few barriers to competition and no monopoly of data. Most of the business lines have become commoditized / scale businesses. So, the number of banks has contracted through consolidation, but the vast majority (>80%) of the industry assets and customers are concentrated in the top 10 banks.

5. **Some argue banks are heavily regulated. Others argue for a new regulatory regime. How do you see it?**

   The cost of FDIC insurance is regulation. I don't see this as a bad thing. It is definitional. When the value of insured deposits is not enough to live with the regulation, then the system will evolve. Until that happens, deal with it. Where I think regulation moves beyond risk mitigation is when the banks are asked to do the government's work – certain aspects of anti-money laundering rules, or when forced to implement social agendas – certain aspects of community reinvestment act and others. On the whole, there are bigger issues facing the banks.

6. **Is Fintech more Fin or Tech?**

   Much more tech than fin. We hate the term. What does it mean? It covers everything from a market place lending company to the software necessary to do customer background checks. We think there are more refined terms that can narrow the focus – regulatory tech, insure tech, cyber security, neo bank, etc.

7. **Why do you prefer to be an insider at banks?**

   Our goals are to underwrite investments properly and then to influence change and outcomes. We believe this is easier to accomplish as an insider. There are certain situations where we do not need to do due diligence at the insider level; certain situations where we cannot impact outcomes; or situations where things will naturally happen without us. We are open to the right governance and structure to our investments.

8. **What few traits are imperative for good corporate governance?**

   Combining with below b/c board and governance go hand in hand. Key for corporate governance is a CEO who knows that he/she needs it. If CEO views it as a hassle or intrusion is problematic. Cults of personalities are a warning signal.

9. **What few traits are imperative to be a good board member?**

   Most important is to be independent, objective and not afraid to contribute or question things. Just going along with the "Same old" is not helpful. Industry knowledge is helpful but not imperative. Differentiated but complementary skills are important in building a good board.

10. **What is the best new and worst new bank regulation you have seen over your career?**
    a. Worst – I think that certain consumer protection laws have gone way overboard.
    b. Best – probably recognizing that the old regs like Glass-Steagel failed to recognize how financial services and the economy have evolved.

11. **How are you currently viewing cryptocurrencies and block chain technology?**
    a. I don't understand how to value crypto, so I am an interested observer.
    b. I find blockchain to be a compelling improvement to so many financially related assets and markets. We expect real implementation. Most obvious use case is in the mortgage market, especially title. Happy to expand on this.

12. **Banks used to have "credit training programs" for young recruits. Do they still or how do young creditors get trained?**
    a. Large banks still have training programs, but they tend to be more siloed. Credit training is great training. I went through it and found it better than my MBA. I think too few people have the experience because they wind up in analyst programs geared more to advisory / investment banking. Mid-sized banks have the programs but they are not the top choices that they were a few decades ago.

13. **Do you have any common "deal killers", or things you see, you will stop researching an investment?**

    Many.
    a. It always starts with management. Do we trust the CEO? Can the ceo accomplish goals?
    b. From a business profile standpoint, each industry is different, and sometimes price / structure can make up for deficiencies. For banks, we focus on deposit base. For information services, we focus on "must have" and size of "moat" around the business.
    c. Exit – how can we get liquidity? Are there multiple routes? Is our downside protected?

14. Any consistent deal sourcing techniques over the years for you?

a. We have found that personal outreach and relationship building is best. Competing in competitive processes is very difficult.

15. Any general rules or practices from getting from Letter of Intent to actual closing day?

a. I call this "deal mode." It is important to have the ability to transition to this. Focus, energy, playbook, etc.
b. Attention to detail – whether in the due diligence phase or the documentation, you need to move from vision and macro level to the nitty gritty. This is sometimes hard to do.
c. Remain objective. You cannot fall in love just because of the amount of time or effort that you have put in.
d. Be a problem solver and remain flexible. There are often solutions to problems. You will identify many. Think about ways to fairly solve them.
e. Don't be afraid to break up. We often say that every successful deal needs to fall apart once. Don't be afraid of this happening. It may be healthy to the negotiations.

16. If you were looking to invest in an investment management firm, what characteristics would you seek?

a. I would focus on integrity of the people, how well they understand the needs of their clients, and how flexible their approach is.
b. With commodity products and technical knowledge widely known, I think the application / approach is the differentiator. Forcing clients into a "program" doesn't make for a great advisory firm.
c. Conversely, if you are taking the "program" approach, recognize that this is a scale business and measure investment performance and

17. You are currently seeking investments in subscription businesses in information services. What drew you to this area?

a. Expertise. Our new partners built one of the preeminent businesses and were interested in transitioning from the operating to the investing side. We thought that partnering with our investment team was a recipe for success. In addition, we have had a 30 year relationship with one of the new partners.

b. Endicott's strengths. Having looked deeply into how to transition Endicott's business, we struggled with Fin tech vs something more familiar to us. Fin Tech was the logical industry transition, but venture capital model was not. Information Services was one step removed, but the private equity approach with an emphasis on partnering with management teams fit much better with our experience and strengths.
c. Business Model. Recurring revenue is very valuable. Once you see the power of "must have" "high renewal rate" subscription models, you realize how valuable these businesses can be. And the dynamic of the industry, with acquisition hungry large buyers, is a great recipe for investing.

18. What are some of the common challenges in growing a subscription business?

a. We have consistently found that the commercial sides of these businesses significantly lag the data / technology side. The data is rich and important, but the product, sales, and customer service sides need much improvement.

19. In information services, there seems to be a few large dominant firms, then many smaller companies. Why do you think this is?

a. We see this in financial services as well. More and more, scale is driving business models. And once you have scale / presence, you get access to capital / currency value in stock price. This tends to create a self-fulfilling situation. The larger companies can then purchase smaller firms, show growth, and get paid for it.
b. Our task is to find the companies that can emerge as acquisition targets for the bulge bracket firms. There are so many available, so we have to be careful in finding the gems and helping them grow / develop.

20. Any shorter term opportunities or worries in the information services sector?

Personally, beyond the normal things we focus on, I look at 2 issues. The first is how technology generally can change the competitive position / "must have" nature of the information any particular company provides. The second is more fundamental to our investment approach; how do we protect our downside. We cannot afford to lose money on an investment. As compared to venture investing, we cannot afford big losses. We run a concentrated portfolio with reasonable, but limited, upside.