The Bank Slate (Vol. LXII) **April 17, 2023**

We made it through another weekend, Bank Slaters!

We're in the early stages of earnings season. We're all keeping an eye out for deposit levels, the composition of deposits, and the nature of banks' bond portfolios. What else are you looking for in upcoming reports?

It is also time for annual meetings, so let's talk about activist investors.

Most meetings go off seamlessly, but there are instances where activist investors/dissident shareholders will launch proxy challenges in hopes of securing board seats. While some activists are justified in pursuing change, there are instances where an investor is intent on forcing a well-run bank to find a buyer (we're not taking a position on specific battles).

I recently connected with Andrew Wilson, a managing partner at DrivePath Advisors, who, among other things, advises banks on how to navigate situations with outspoken investors. I asked Andrew to share his advice for management teams and directors dealing with activist investors. This is what he shared.

Prepare in advance: Long before a campaign is launched, understand your bank's risks and vulnerabilities and plan out how to address the issues. Is there a process to refresh the board or add new capabilities?

What are your peer comparisons in terms of shareholder returns, efficiency and other metrics? Is the strategy clearly articulated so investors know how you're creating long-term value?

Don't wait to talk to investors: Get to know your shareholders, especially those with significant holdings. Set up calls or meetings – even if just a short introductory chat. Have existing relationships and understand investors' priorities and approaches should an activist take a position in your bank. Even if an investor lacks time to meet, a request might be beneficial if you have to call on them later for support during a proxy contest.

Engage, but be wise: CEOs would be shrewd to engage with activist investors to understand their concerns, ideas and proposals. Remember that anything you say can and will be used against you, so think through every aspect of the chat. Thread the needle so the investor knows you care about their views but avoid over-committing. Set an appropriate tone and cadence early on and follow through.

Involve your board: Directors, by and large, have limited (if any) exposure to what an activist campaign means for them and management. Executives should walk directors through the process, how an activist typically behaves, what a proxy fight would mean for the bank and how much time and energy an engagement might take. Err on the side of transparency so the board understands what's happening and can support your team.

Cold, clear analysis: Remove emotion from the process as best you can. Nobody likes the feeling of an outsider criticizing performance, but an activist may have reasonable and fair points and good ideas. Even if you disagree, think hard about whether a compromise is in the best interest of all stakeholders. You don't have to give in, especially if you're in a strong position in terms of performance and broader shareholder support. You must have a dispassionate, careful process to make the best decisions for the bank and its stakeholders.

Do you have anything to add? Let me know at info@thebankslate.com.

Here's a recap of banking news from the week that was.

The Big Headline

Fed Gov. Michelle Bowman threw her support behind reforming de novo regulation to create "viable" pipelines. Bowman, who chairs the Fed's subcommittee on smaller regional and community banks, said upfront capital requirements – which require organizers to raise capital to meet projections of a bank's future size – could be lowered.

Bank Earnings

A large number of big banks reported first-quarter results last week, including JPMorgan Chase, Citigroup, Wells Fargo and PNC Financial Services Group.

M&A

- First Miami Bancorp in Florida considered four offers before negotiating with United Community Banks in South Carolina.
- Huntington Bancshares in Ohio sold its retirement planning service business, recording a roughly $57 million pretax gain. The gain will more than offset about $42 million in one-time expenses tied to an early retirement program and the realignment of its business segments.

Arrivals | Departures

- Wells Fargo in San Francisco said veteran executive Mary Mack is retiring. Saul Van Beurden, head of technology, will succeed Mack as CEO of consumer and small business banking on May 15. Tracy Kerrins, head of consumer technology, will succeed Van Beurden as head of technology.
- U.S. Bancorp in Minneapolis said Kate Quinn, vice chair and chief administrative officer, and Jim Kelligrew, vice chair of corporate and commercial banking, will retire on June 30. Terry Dolan, U.S. Bancorp's CFO, will succeed Quinn. John Stern, president of the global trust and custody business, will become CFO on Sept. 1. Gunjan Kedia will take on an expanded leadership role, adding corporate and commercial banking to current duties.
- Capital Bancorp in Maryland said Steve Poynot, its bank COO, will also become bank president. He will succeed Scot Browning, who will become the bank's president of specialty and CRE lending, reporting to Poynot.
- The Minnesota Credit Union Network named Mara Humphrey as its next president and CEO. Humphrey, who holds the association's chief advocacy position, will succeed Mark Cummins, who is retiring.
- F&M Bank in Virginia said Mike Wilkerson had become CEO and Barton Black was named president. They succeeded Mark Hanna, who will leave F&M and step down from its board. Wilkerson was chief lending officer and chief strategy officer. Black was COO.
- Berkshire Hills Bancorp in Boston named Eric Rosengren to its board. Rosengren, president and CEO of the Boston Fed from 2007 to 2021, is CEO of Rosengren Consulting and a visiting scholar at the MIT Golub Center for Finance & Policy.

(Fin)tech

- Altruist, a fintech custodian for registered investment advisers, raised $112 million in a funding round led by Insight Partners and Adams Street. The company, which recently announced plans to buy Shareholder Services Group and launch its self-clearing custodian, said the Series D round brought its total funding to about $290 million.

Odds & Ends

- Walmart filed a lawsuit against Capital One Financial in Virginia in an effort to end their credit card relationship. Capital One said it disputes the retail giant's claim that the issuer "was consistently unable to meet" customer service standards.

- CoastalSouth Bancshares in South Carolina raised $9 million through a private placement of common stock. The net proceeds will be used for a range of purposes that could include continued growth and maintaining bank-level regulatory capital ratios.

We'll be keeping an eye on more earnings this week. Should be an interesting few days!