

June 12, 2015

Dear clients and colleagues,

During the last five years, the banking sector has seen very little mergers and acquisitions (M&A) activity. However, we have seen the trend reverse this year, as 2015 could emerge as the strongest year for M&A since the Great Recession. There is a lot of consolidation occurring in the small and mid-regional bank space. And while the larger banks are busy dealing with increased regulations, the small and mid-banks are gaining market share.

Our portfolio has been positively impacted by this trend. City National (CYN US), a name we have owned since inception and one of the top 10 weights in the portfolio, was acquired by the Royal Bank of Canada earlier this year.

Today, we shall present a name we recently added to replace City National.

**UMB Financial Corp (UMBF US – \$57.19)**

<http://www.umbfinancial.com>

***Business Overview***

Founded in 1913 and headquartered in Kansas City, UMBF is a century old franchise. It is a unique investment as it provides exposure to asset management and mid-market commercial banking. It should benefit from rising interest rates due to: 1) commercial heavy loan mix, 2) deposit base, 3) conservative securities book.

UMBF has evolved from simply providing traditional commercial and consumer banking services, to offering diverse revenue opportunities. It has grown its Assets under Management (AUM) at a 10 year CAGR of 19.2% and currently manages \$42.8 billion in assets. UMBF also provides asset servicing with Assets under Administration (AUA) of \$198.3 billion. This number has grown at a CAGR of 30.5% over the last 10 years.

UMBF may be an old franchise, but it is actively participating in the changing healthcare industry. The firm offers Health Savings Accounts (HSA), where it has \$917.5 million in deposits and assets. It has a 4% market share of this rapidly growing market.

***Target Market***

Banking is a mature industry, plagued by fragmentation and a commoditized product. However, technology, regulations, and economic needs are creating growth opportunities for those banks willing to adapt to the new environment.

***UMB Financial's Competitive Advantages***

- Bank of choice in the region as consolidation continues
- Same technology and product versus larger players, but a high touch relationship
- Loan officers have access to executive

**Growth Strategy**

- Acquisition and de novo
- Cross sell on the commercial side
- Gain market share in new areas such as Arizona, Texas, and Denver

**Management**

The Kemper family bought UMB Financial during World War I and still owns 15%. Other employees own an additional 6%. The Kemper family has provided four generations of consistent leadership. Mariner Kemper became the CEO in 2004 and has transitioned the bank into a fully diversified financial firm since taking the position.

**Risks**

- Lower interest rates
- AUM and AUA could be impacted by fund underperformance
- Downturn in equity market could impact its Trust, Wealth & Asset Management business

**Market Data**

Market Cap \$2.8B, P/E (2016) 16.8x, Price/Book (2016) 1.4x, Dividend Yield 1.6%

Have a good weekend.

The Global Alpha Team