

StoneCastle Financial Corp.
Form N-CSRS
August 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-22853

StoneCastle Financial Corp.
(Exact name of registrant as specified in charter)

152 West 57th Street, 35th Floor
New York, NY
(Address of principal executive offices)

10019
(Zip code)

Joshua S. Siegel
StoneCastle Financial Corp.
152 West 57th Street, 35th Floor
New York, NY 10019
(Name and address of agent for service)

Copies of Communications to:
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Registrant's telephone number, including area code: (212) 354-6500

Date of fiscal year end: December 31

Date of reporting period: June 30, 2018

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

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A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

Semi-Annual Report

June 30, 2018
(unaudited)

NASDAQ **BANX**

stonecastle-financial.com

STONECASTLE FINANCIAL CORP.

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StoneCastle Financial Corp.

Schedule of Investments (unaudited)

As of June 30, 2018

Company ⁽¹⁾	Investment	# of Shares/Par Amount (\$) ⁽²⁾	Fair Value ⁽³⁾
Term Loans 16.4%			
Banking 16.4%			
American Capital Bancorp	Subordinated Term Loan, 9.00%, 4/1/2023	\$ 7,000,000	\$ 7,043,750
Baraboo Bancorporation, Inc.	Senior Secured Term Loan, 10.50%, 12/28/2026	\$ 13,000,000	13,146,250
Big Poppy Holdings, Inc.	Subordinated Term Loan, 6.50%, 4/1/2028	\$ 3,500,000	3,467,188
Total Term Loans (Cost \$23,500,000)			23,657,188
Debt Securities 5.5%			
Banking 5.5%			
MMCapS Funding I, Ltd. / MMCapS Funding I, Inc.	Fixed Rate Senior Notes, 8.04%, 6/8/2031, 144A ⁽⁴⁾	\$ 4,307,097	3,434,910
Preferred Term Securities, Ltd. / Preferred Term Securities, Inc.	Fixed Rate Mezzanine Notes, 9.74%, 9/15/2030, 144A ⁽¹⁾	\$ 4,435,141	4,518,299
Total Debt Securities (Cost \$7,938,228)			7,953,209
Trust Preferred Securities 17.3%			
Banking 17.3%			
Capital City TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 1,903,832	1,906,212
Central Trust Company Capital Trust I	Junior Subordinated Debt (Trust Preferred Security), 10.25%, 7/25/2031	\$ 2,500,000	2,531,250
First Alliance Capital Trust I	Junior Subordinated Debt (Trust Preferred Security), 10.25%, 7/25/2031	\$ 6,500,000	6,581,250

First Citizens TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 2,221,137	2,226,690
M&T TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 2,538,442	2,562,240
Mercantil TPS LLC	Trust Preferred Security Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 4,759,579	4,798,251
National Bank of Indianapolis TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 4,283,622	4,299,685
	Total Trust Preferred Securities (Cost \$25,233,474)		24,905,578

See notes to Financial Statements

Company ⁽¹⁾	Investment	# of Shares/Par Amount (\$) ⁽²⁾	Fair Value ⁽³⁾
Credit Securitizations	32.2%		
Banking	32.2%		
Community Funding CLO, Ltd.	Preferred Shares ⁽⁵⁾ (Estimated effective yield 10.37%), 144A ⁽⁴⁾	\$45,500,000	\$45,092,775
U.S. Capital Funding I, Ltd. / U.S. Capital Funding I, Corp.	Subordinate Income Note, (Estimated effective yield 21.44%), Due 5/1/2034, 144A ⁽⁴⁾	\$ 4,700,000	1,316,235
	Total Credit Securitizations (Cost \$46,673,381)		46,409,010
Pooled Equity Interest	15.2%		
Banking	15.2%		
Community Funding 2018, LLC.	Preferred Shares ⁽⁵⁾ (Estimated effective yield 9.34%), 144A ⁽⁴⁾	\$22,860,000	21,865,590
	Total Pooled Equity Interest (Cost \$22,311,937)		21,865,590
Preferred Stocks	26.7%		
Banking	26.7%		
Chicago Shore Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9% ^{(6)*}	\$ 6,400,000	7,840,000
Chicago Shore Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9% ^{(6)**}	\$ 150,000	183,750
First Priority Financial Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series C, 9%	\$ 428,000	425,860
First Western Financial, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 3,890,000	3,860,825
First Western Financial, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series C, 9%	\$ 219,000	217,358
Katahdin Bankshares Corporation	Floating Rate Non-Cumulative Preferred Stock, Series D, 8.75%	\$10,000,000	9,900,000

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Reliance Bancshares, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 12,750,000	12,622,500
Tennessee Valley Financial Holdings, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 100,000	97,500
Tennessee Valley Financial Holdings, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9%	\$ 49,000	47,775
The Queensborough Company	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 1,218,000	1,205,820
TriState Capital Holdings	Fixed / Floating Cumulative Perpetual Preferred Stock, 6.75% (TSCAP)	80,000	2,096,000
	Total Preferred Stocks (Cost \$37,330,580)		38,497,388
Common Stocks	2.0%		
Banking	2.0%		
Happy Bancshares, Inc.	Equity Security - Private Placement, 144A ⁽⁴⁾ (6)(7)	44,000	1,413,280
Howard Bancorp, Inc.	Equity Security (HBMD) ^{~(6)}	83,119	1,496,139
	Total Common Stocks (Cost \$2,004,317)		2,909,419
See notes to Financial Statements			

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Company ⁽¹⁾	Investment	# of Shares/Par Amount (\$) ⁽²⁾	Fair Value ⁽³⁾
Exchange Traded Fund	14.0%		
Diversified Financial Services	14.0%		
iShares S&P U.S. Preferred Stock Index Fund	iShares U.S. Preferred Stock Index Fund - Exchange Traded Fund (PFF)	535,100	\$ 20,178,621
	Total Exchange Traded Fund (Cost \$20,064,987)		20,178,621
	Total Long Term Investments (Cost \$185,056,904)		186,376,003
Money Market Fund	0.4%		
Morgan Stanley Institutional Liquidity Funds - Treasury Portfolio	Institutional Share Class - Money Market Mutual Fund (MISXX)	585,323	585,323
	Total Money Market Fund (Cost \$585,323)		585,323
	Total Investments (Cost \$185,642,227)^{(8)(9)†} - 129.7%		186,961,326
	Other assets and liabilities, net - (29.7)%⁽¹⁰⁾		(42,860,788)
	Total Net Assets - 100.0%		\$144,100,538

(1) We do not "control" and are not an "affiliate" of any of our investments, each as defined in the Investment Company Act (the "1940 Act").

(2) \$ represents security position traded in par amount.

(3) Fair Value is determined in good faith in accordance with the Company's valuation policy and is reviewed and accepted by the Company's Board of Directors.

(4) Security is exempt from registration under Rule 144A of the Securities Act of 1933.

(5) The preferred shares are considered an equity position. Equity investments are entitled to recurring distributions which are generally equal to the remaining cash flow of the payments made by the underlying company's securities less contractual payments to debt holders and company expenses. The estimated effective yield indicated is based upon a current projection of the amount and timing of these recurring distributions and the estimated amount of repayment of principal upon termination. Such projections are periodically reviewed and adjusted as needed. The estimated effective yield may ultimately not be realized.

- (6) Currently non-income producing security.
- (7) Investments determined using significant unobservable inputs (Level 3). (see Note 2). The value of such securities is \$1,413,280 or 1.0% of net assets.
- (8) Investments are income producing assets unless otherwise noted by footnote (6).
- (9) Cost values reflect accretion of original issue discount or market discount, and amortization of premium.
- (10) Includes \$45,500,000 in bank loans from Texas Capital Bank.

~ Effective March 1, 2018, Howard Bancorp, Inc. acquired First Mariner Bank. This transaction resulted in an exchange of 50,000 shares (par value \$1,000,000) of Priam Capital Fund I, L.P. for 83,119 shares of Howard Bancorp, Inc.

* As of June 30, 2018, this investment has deferred, undeclared and compounding dividends of \$1,686,343 that will be recognized by StoneCastle Financial Corp. once they are declared by Chicago Shore Corporation.

** As of June 30, 2018, this investment has deferred, undeclared and compounding dividends of \$39,524 that will be recognized by StoneCastle Financial Corp. once they are declared by Chicago Shore Corporation.

† As of June 30, 2018, the cost basis of investment securities owned was substantially identical for both book and tax purposes. Gross unrealized depreciation of investments was \$(1,861,163) and gross unrealized appreciation was \$3,180,262 resulting in net unrealized depreciation of \$1,319,099.

See notes to Financial Statements

Additional Information

The following is a listing of the underlying unsecured loans, subordinated debentures and notes that were made by Community Funding CLO, Ltd. See Notes to Financial Statements for additional information on StoneCastle Financial Corp's. investment in Community Funding CLO, Ltd.

Bank Name	Principal Amount	State
Progress Financial Corporation	\$ 5,500,000	Alabama
Cornerstone Community Bancorp	5,000,000	California
First Bancshares, Inc.	2,500,000	Missouri
Bankwell Financial Group	7,500,000	Connecticut
SBT Bancorp, Inc.	7,500,000	Connecticut
Biscayne Bancshares, Inc.	7,500,000	Florida
Idaho Trust Bancorp	5,000,000	Idaho
Bancorp Financial, Inc.	12,500,000	Illinois
Market Street Bancshares, Inc.	7,500,000	Illinois
First Internet Bancorp	10,000,000	Indiana
Treynor Bancshares, Inc.	12,500,000	Iowa
Freedom Bancshares, Inc.	2,000,000	Kansas
Williams Holding Company, Inc.	1,000,000	Kansas
CB&T Holding Corp.	12,500,000	Louisiana
Delmar Bancorp	2,000,000	Maryland
Citizens Bancshares	12,500,000	Missouri
Security State Bancshares, Inc.	12,500,000	Missouri
InterMountain		