

Small Cap Focus

Portfolio Update: Second Quarter 2022

During the second quarter ending June 30, 2022, the Small Cap Focus Composite (the "Strategy") returned -14.11%, gross of fees (-14.26%, net of fees), compared to a -17.20% return for the Russell 2000 Index.

	3 Months	YTD	1 Year	3 Years	Since Inception
Small Cap Focus (Gross)	-14.11%	-22.07%	-13.20%	+9.98%	+14.80%
Small Cap Focus (Net)	-14.26%	-22.34%	-13.76%	+9.34%	+14.14%
Russell 2000 Index	-17.20%	-23.43%	-25.20%	+4.21%	+8.36%

Inception date: December 31, 2018. Performance for periods of greater than one year is annualized. Please see important disclosures at the end of this document. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. Data as of June 30, 2022.

As a quick review, the quarter witnessed the economy weaken while inflation remained persistently high. The Federal Reserve pivoted towards a more "hawkish" tone in its determination to bring down inflation from 8.9% towards its goal of 2%. In fact, it raised the Fed Funds rate by 75 basis points, even after previously suggesting an increase of that magnitude was "off the table." Given currently low unemployment, the Fed has shifted its mandate somewhat, indicating it is willing to risk a recession to meet its 2% inflation goal.

For the second quarter in a row, portfolio holdings reported great fundamental quarters and outlooks, but positive fundamentals for many companies were not rewarded as the market shifted its focus to anticipating deteriorating fundamentals due to higher interest rates, tighter liquidity conditions, slower economic growth, and increased odds of a recession over the next 12 months.

Credit spreads have finally started to crack, increasing from 3.77% to 6.52%, which compares to 5.36% on a 20-year average¹. In our last quarterly letter, we expected several of our quality cyclical names to come roaring back if the Federal Reserve successfully threads the needle between restraining inflation while avoiding a recession. This does not appear to be happening. We also said if the Fed causes a recession, we expect credit spreads to widen and reward the Strategy's inherent quality bias. We believe this appears to be happening.

¹ Source RMB Capital.

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Contributors and Detractors

Contributors were mostly driven by positive fundamental information and/or a higher quality bias.

Two higher quality banks, TriCo Bancshares (TCBK +14.65%) American Financial Group Inc. (AFG +1.50%) topped the list of contributors. Our experience is that banks correlate until they don't. And they don't when there are credit issues creeping into the economy -- that's when higher credit quality banks outperform lower credit quality banks. Both banks reported stellar results, no credit issues this quarter and are both higher credit quality banks.

AFG was relatively resilient in the quarter, given an overall strong set of first quarter results and a sustained strong outlook. AFG reported a strong first quarter that was driven by favorable loss development and higher investment income results. Management communicated that portfolio reinvestments would be higher in duration from low 2-year levels, which will bolster investment income results in coming quarters. Management affirmed the combined ratio expectations for the year (85-87%) and raised premium growth expectations.

West Pharmaceutical Services Inc. (WST -26.34%) detracted this quarter, as one-time labor issues negatively impacted margin. Margin improvement from new, higher value products as well as better operating efficiencies is key to our positive thesis, so the market did not like the margin hit. We are confident this is a one quarter issue and expect the margin and the stock to recover. The rest of the detractors were quality cyclical negatively impacted by the slowing economy and increasing recession expectations.

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SECOND QUARTER 2022 CONTRIBUTION REPORT Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
TriCo Bancshares	+40	+14.65%
American Financial Group, Inc.	+3	+1.50%
Aspen Technology, Inc.	-0	-0.35%
Citizens Financial Group, Inc.	-4	+0.00%
Catalent Inc	-5	-3.26%
Bottom Detractors		
EastGroup Properties, Inc.	-108	-24.09%
West Pharmaceutical Services, Inc.	-106	-26.34%
Carpenter Technology Corp.	-106	-33.18%
Monolithic Power Systems, Inc.	-81	-20.95%
Synaptics Inc.	-73	-40.84%

Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Strategy. Holdings listed might not have been held for the full period. To obtain a copy of RMB's calculation methodology and a list of all holdings with contribution analysis, please contact your service team. The data provided is supplemental. Please see important disclosures at the end of this document.

Portfolio Activity

As mentioned in our last quarterly letter, overall, we feel good about the companies we own. Having said that, we sold NeoGenomics Inc. (NEO) as they were not tracking to their positive thesis. We reallocated proceeds to top off higher conviction names, including Chesapeake Utilities Corp (CPK), Watsco Inc. (WSO), Royal Gold Inc. (RGLD), Curtiss-Wright Corp. (CW), and Synaptics Inc. (SYNA).

Outlook

We estimate that we are at least halfway through the current bear market. The average bear market is approximately 16 months accompanied by a 41% decline. The current bear market for the Russell 2000 is 8 months, with a 30% decline. Further downside can't be ruled out given the Fed is just getting started on interest rate increases and quantitative tightening. Inflation remains above target; consumer confidence is plummeting and the economy is slowing.



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The key to the ultimate duration and depth of the current bear market is inflation. How low will it go, and how fast can it get there? We estimate that current market prices imply a mild recession, with long term inflation at 2-3%. If the recession is deeper, and/or inflation persists higher, there may be as much as 20% more downside to come. However, if the Fed threads the needle by avoiding a recession, or engineers a shallow, short recession, downside can be more modest with large upside when the Fed pivots to less hawkishness. We are watching credit spreads to help us get a read on which scenario is most likely. Given our quality bias, we believe the portfolio is positioned well on a relative basis if credit spreads continue to widen and the economy continues to slow. If credit spreads do blow out on a deeper recession, our plan is to intentionally add portfolio risk by increasing exposure to the tails of the corporate Life Cycle (Rockets on the left and Fallen Angels on the right) like we did during the COVID bear market in March 2020. Regardless of which scenario plays out from here, investors should be preparing to upgrade their equity allocations over the next 6-12 months. Note, small cap stocks may lead the way out of bear markets as they are often more sensitive to changes in liquidity and credit spreads.

As always, the companies we aim to invest in demonstrate high managerial skill in capital allocation and adaptability, which we believe can create value for customers, employees, communities, and shareholders.

Thank you for your commitment to the Strategy. Should you have any questions regarding your investment, please do not hesitate to reach out to us.

Sincerely,



Chris Faber
Portfolio Manager

TOP TEN HOLDINGS AS OF 6/30/22

Company	% of Assets
Devon Energy Corp.	5.22%
Seacoast Banking Corp. of Florida	4.42%
West Pharmaceutical Services Inc.	3.84%
Catalent Inc.	3.82%
EastGroup Properties Inc.	3.82%
Monolithic Power Systems Inc.	3.72%
Pool Corp.	3.71%
Eagle Materials Inc.	3.45%
Repligen Corp.	3.36%
TriCo Bancshares	3.19%

Holdings are subject to change. Past performance is not indicative of future results, and there is risk of loss of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.



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An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear fees, taxes, or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by the strategies. The benchmarks are shown for comparison purposes and are fully invested and include the reinvestment of income. The Russell 2000 is a subset of the Russell 3000 Index, representing about 8% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Basis Point (bps): A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

While "high-quality" has no single, strict industry definition, we define high-quality stocks as those that we believe offer more reliability and less risk based on a set of clearly defined fundamental criteria including hard criteria (e.g., balance sheet stability, operating efficiency, enterprise life cycle) and soft criteria (e.g., management credibility). We define well-managed companies as those that intentionally grow assets when their economic return on capital is above the cost of capital, are willing to shrink assets when economic return is below the cost of capital, and actively seek to improve economic return when it is approximately equal to the cost of capital.



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RMB Asset Management

Small Cap Focus Composite // GIPS Report

Organization | RMB Capital Management, LLC ("RMB Capital") is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 and established in 2005. The GIPS firm is defined as RMB Asset Management ("RMB AM"), a division of RMB Capital Management, LLC. Previously, the firm was defined as RMB Capital and was redefined on January 1, 2016 to only include the asset management business due to the difference in how its investment strategies and services are offered. RMB AM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RMB AM has been independently verified for the periods April 1, 2005 through December 31, 2019. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Description | The Small Cap Focus Strategy reflects the performance of fully discretionary equity accounts, which have an investment objective of long-term growth using a portfolio of primarily small-cap stocks and for comparison purposes is measured against the Russell 2000 index. The Strategy seeks to maintain a concentrated portfolio of approximately 40 securities. The inception date of the Small Cap Focus Composite is December 31, 2018 and the Composite was created on December 31, 2018. The composite includes small cap equity portfolios invested in undervalued companies as suggested by RMB Capital's proprietary economic return framework, with relatively small market capitalizations (generally under \$2.5 billion at the time of initial purchase) and with both growth and value attributes. Valuations and returns are computed and stated in U.S. Dollars.

ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

Year End	Composite Assets			Annual Performance Results						
	Total Firm Assets as of 12/31 (\$M)	USD (\$M)	# of Accounts Managed	Composite Gross-of-Fees (%)	Composite Net-of-Fees (%)	Russell 2000 (%)	Composite 3-YR ST DEV (%)	Russell 2000 3-YR ST DEV (%)	% Non-Fee Paying Assets (%)	Composite Dispersion (%)
2021	6,277.6	309.86	528	28.55	27.78	14.82	19.80	23.35	0.00	0.99
2020	5,240.6	207.48	388	23.35	21.68	19.96	N/A	N/A	0.00	2.24
2019	4,947.9	97.96	253	32.23	31.57	25.52	N/A	N/A	1.21	0.79

* Composite dispersion is reported as N/A when the information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year

Fees | The standard management fee is 0.750% of assets on the first \$2.0 million, 0.700% on the next \$2.0 - \$5.0 million, 0.650% on the next \$5.0 million, 0.600% on the next \$10.0 - \$20.0 million, and 0.550% over \$20.0 million. Actual investment advisory fees incurred by clients may vary. Composite performance is presented on a gross-of-fees and net-of-fees basis and includes the reinvestment of all income. The net returns are reduced by all actual fees and transactions costs incurred. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Risk measures presented are calculated using gross-of-fees performance. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

Minimum Value Threshold | There is no account minimum in the Small Cap Focus Composite.

Comparison with Market Indices | RMB compares its Composite returns to a variety of market indices. These indices represent unmanaged portfolios whose characteristics differ from the Composite portfolios; however, they tend to represent the investment environment existing during the time period shown. The returns of the indices do not include any transaction costs, management fees, or other costs. Benchmark returns presented are not covered by the report of independent verifiers. The benchmark for the Small Cap Focus composite is the Russell 2000 Index, which for comparison purposes is fully invested and includes the reinvestment of income. The Russell 2000 is a subset of the Russell 3000 Index, representing about 8% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 index is an unmanaged index that is designed to measure the small cap segment of the U.S. equity universe. The index does not reflect investment management fees, brokerage commissions, or other expenses associated with investing in equity securities. You cannot invest directly in an index.

Other | Past performance is no guarantee of future performance. Historical rates of return may not be indicative of future rates of return. Individual client performance returns may be different than the composite returns listed. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A list of Composite Descriptions and a list of Broad Distribution Pooled Funds are available upon request.

