Equity Income

Portfolio Update: First Quarter 2023

During the first quarter ending March 31, 2023, the Equity Income Composite (the "Strategy") returned -0.45%, gross of fees (-0.58%, net of fees), compared to +1.01% return for the Russell 1000® Value Index.

	3 Months	YTD	1 Year	Since Inception
Equity Income (Gross)	-0.45%	-0.45%	-1.26%	+1.54%
Equity Income (Net of IM fees)	-0.58%	-0.58%	-1.73%	+1.03%
Equity Income (Net of IM & WM Fees)	-0.83%	-0.83%	-2.72%	+0.01%
Russell 1000® Value Index	+1.01%	+1.01%	-5.91%	-5.34%

Inception date: December 31, 2021. 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 March 31, 2023. Investment management (IM) fees are charged for managed investment accounts, is intended to compensate the portfolio managers for their time and expertise for selecting investments and managing the specific strategy as well as other items, such as investor relations expenses and the administration costs. Wealth management (WM) fees are charged to cover the construction and management of a portfolio and the holistic wealth management services that a client has chosen beyond their investments including, but are not limited to, estate planning, tax strategies (and related services), risk management, financial planning, retirement planning, investment advice, and insurance/banking oversight services. These fees vary by client and for this presentation the highest possible wealth management fees have been applied in these calculations.

The two notable factors influencing performance in the first quarter were the sharp reversal of market leadership from value to growth at the start of the quarter, and the impact of the Silicon Valley (SVB) and Signature Bank (SBNY) failures. The year started with a sharp reversal of 2022's value leadership versus growth, sparked by a combination of natural rotation that occurs at the start of a calendar year and some anticipation that the Fed would be able to thread the needle to avoid a hard landing. Through March 31, the Russell 1000® Growth index was up +14.4% compared to +1.0% for the Russell 1000® Value index. The bigger story, however, was the rapid collapse of Silicon Valley Bank after a host of factors lead to a run on the bank. Much has been written about the causes for this, including insufficient interest rate risk management in the face of rapidly rising rates, a concentration of deposits from a single industry (venture capital), and the role technology played in accelerating the pace of withdrawals, both via social media communications and the ability to access and transfer funds electronically. The U.S. Treasury, Federal Reserve and FDIC took actions to insure all deposits at those banks, including amounts above the $250,000 FDIC insurance level, and created an emergency lending facility to prevent further bank runs. These actions steps stopped the panic, but the long-term implications for the banking system are still not known. As a result of this uncertainty, bank stock performance weighed on the returns of both the benchmark and the Strategy.

Contributors and Detractors

While our holdings in Financials and Industrials contributed positively to relative performance, Communication Services, Consumer Discretionary, and Technology were headwinds. As mentioned above, "growth" stocks outperformed value stocks in the first quarter. It is notable that many of the fallen tech names made their way into the value index, including Meta Platforms Inc. (META) and Salesforce Inc. (CRM), which were up 76% and 51% respectively. Non-ownership of these stocks, which do not pay dividends, accounted for nearly all of the strategy's relative underperformance last quarter.

The largest contributor to total return and excess return this quarter was Watsco Inc. (WSO). Watsco is the largest distributor of heating and air conditioning products (HVAC) in North America, with a focus on the Sun Belt states. Its business is primarily driven by replacement demand, so it is less dependent on new construction. In its most recent earnings report, WSO reported mid-single digit sales growth, driven by strong pricing, which management believes will continue in 2023. Government subsidies and regulatory tailwinds are expected to push customers to higher priced, more efficient systems, which would benefit Watsco. In recent years, the company has been investing in technology solutions to improve inventory management and help make its contractor customers more efficient, which is driving market share gains.

The next largest contributor was CME Group Inc. (CME), an exchange providing industry-leading products to manage risks tied to interest rates, equity indexes, foreign exchange, and commodities. The stock responded positively to comments about the strong pricing environment. Risk and volatility, in general, increase demand for CME's products. In the wake of the Silicon Valley and Signature bank collapses, demand for products to help manage interest rates risk, as well as a general increased focus on risk management, should continue to benefit CME Group. The company has a wide economic moat, driven by scale and network benefits. In the first quarter, CME Group increased its annual dividend by 10% to $1.10/quarter. The strong cash generation has historically supported special dividends as well, which totaled an additional $4.50/share last December.

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FIRST QUARTER 2023 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Average Weight
Top Contributors		
Watsco Inc.	+117	4.97%
CME Group Inc.	+66	4.85%
Texas Instruments Inc.	+56	4.28%
Dow Inc.	+31	3.51%
Comcast Corp.	+31	2.99%
Bottom Detractors		
Johnson & Johnson	-60	5.28%
Advance Auto Parts, Inc.	-54	2.95%
M&T Bank Corp.	-50	2.79%
Chevron Corp.	-47	5.59%
International Flavors & Fragrances Inc.	-31	2.92%

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.

On the negative side, Advance Auto Parts Inc. (AAP) declined, despite better-than-expected same-store-sales comparisons and improved operating margins. We invested in this company as a turnaround. It has underperformed peers for many years, but we believe the plan put in place to close the gap is achievable and the market expectations are very undemanding. The company has made some progress, but it has been slower than we expected, due in part to the economic conditions. Its free cash flow generation has been lower than its targets and the board has suspended share repurchases. President and CEO Tom Greco, the architect of the turnaround strategy who has been with the company since 2016, recently turned 65 and has announced plans to retire at the end of the year. While we continue to believe that the market's low expectations are beatable, we have heightened concern that the ~5% dividend could be cut if the company faces further pressure on cash flows. We balance this risk and opportunity through position size in the portfolio.

M&T Bank Corp. (MTB) declined with other regional banks. While it does not have the same risks as the banks that failed, M&T's profitability outlook, as measured by the spread it takes between deposits and loans (net interest margin), will likely decline and M&T will be subject to any regulatory response for large regional banks. M&T has a conservative credit culture, a strong balance sheet, and, after the recent merger with People's United Bank, has the leading Eastern U.S. regional franchise behind Bank of America. We believe that these attributes position the bank very well to both withstand the shocks of a deteriorating credit environment and to grow as the economy recovers.

Portfolio Activity

While we don't target a specific turnover level, we estimate turnover will typically be low, but healthy, at about 15-35% annually. During the quarter, we only sold one stock: U.S. Bancorp (USB). Before the banking panic began, the Strategy held one money center bank (JP Morgan) and two regional banks (MTB and USB). USB had a larger risk from held-tomaturity securities and exposure to the West Coast, so we sold the stock on the Friday morning as the events of the March banking crisis were still unfolding. We invested the proceeds in attractively valued securities already held.

Income during the quarter included regular dividends from every stock that was held in the Strategy for the duration of the quarter. Year-over-year, regular dividends increased for 22 of the 24 stocks in the portfolio, while two were flat (DOW and JPM). There were no dividend cuts. In the first quarter, dividend income contributed 0.93% of total return, helping to offset price declines.

In addition to regular dividends, this quarter we received “special” dividends (capital returned to shareholders outside of the typical common dividends) from EOG Resources Inc. (EOG: $1.00/share). Special dividends can arise when companies have excess capital on the balance sheet, when specific transactions create an opportunity to distribute capital, or when highly cyclical companies adopt a more flexible dividend program involving both regular and special dividends. This is an unpredictable but valuable contribution to the income component of the Strategy.

As of March 31, 2023, the weighted yield based on the indicated regular dividends (excluding special dividends) was 3.75%. This compares to the dividend yield of the Russell 1000® Value benchmark of 2.25% and the S&P 500 yield of 1.63%. We believe the strategy will maintain a total dividend yield roughly 1x – 2x the S&P 500 dividend yield.

Outlook

As stated in our year-end letter, we believe 2023 will see slower growth, rising unemployment, falling inflation, and moderating corporate profits. Conditions are ripe for a recession in the coming quarters. This was and remains a consensus view. The Fed continues to raise interest rates in its fight against inflation, even in the teeth of a banking scare, with only modest changes to its statement. It is now more likely that the Fed will slow or stop its hikes soon, perhaps even cut rates in 2023, as anticipated by the bond markets.

Economic cycles, interest rates, and investor preferences all influence short-term absolute and relative performance. Over the long term, we believe that investing in high-quality companies that create value for shareholders and distribute a portion of that cash flow in the form of dividends can result in long-term shareholder returns that beat the overall market.

Thank you for your confidence in the team and the strategy. If you have any questions, please do not hesitate to contact us.

Sincerely,

John O’Connor, CFA
Portfolio Manager

Equity Income

TOP TEN HOLDINGS AS OF 3/31/23	
Company	**% of Assets**
Merck & Co. Inc.	5.85%
JPMorgan Chase & Co.	5.82%
Raytheon Technologies Corp.	5.62%
Johnson & Johnson	5.61%
Chevron Corp.	5.57%
CME Group Inc.	5.41%
Watsco Inc.	5.39%
PepsiCo Inc.	4.78%
Texas Instruments Inc.	4.57%
Verizon Communications Inc.	4.48%

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. The Russell 2500® is a subset of the Russell 3000®, including approximately 2500 of the smallest securities based on their market cap and current index membership. The strategies include small- to mid-cap equity portfolios. The strategies may target investments in companies with relatively small market capitalizations (generally between $500 million and $10 billion at the time of initial purchase), that are undervalued as suggested by RMB Capital's proprietary economic return framework. The S&P 500 is widely regarded as the best single gauge of the United States equity market. It includes 500 leading companies in leading industries of the US economy. The S&P 500 focuses on the large cap segment of the market and covers approximately 75% of US equities. The Russell 2000® Value Index tracks the performance of companies with lower price-to-book ratios, which shows a company's market price relative to its balance sheet. The Russell 2000® Growth Index is a subset of companies with higher price-to-book ratios, or those expected to have higher growth values in the future.

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

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RMB Asset Management

Equity Income 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, 2020. 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 Equity Income Strategy reflects the performance of fully discretionary equity accounts, which have an investment objective of dividend income and capital appreciation using a portfolio of primarily U.S. stocks with market caps > $2 Billion and for comparison purposes is measured against the Russell 1000® Value Index. The inception date of the Equity Income Composite is December 31, 2021 and the Composite was created on December 31, 2021. Valuations and returns are computed and stated in U.S. Dollars.

ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

		Composite Assets		Annual Performance Results					
Year End	Total Firm Assets as of 12/31 ($M)	USD ($M)	# of Accounts Managed	Composite Gross-of-Fees (%)	Composite Net-of-Fees (%)	Russell 1000® Value (%)	Composite 3-YR ST DEV (%)	Russell 1000® Value 3-YR ST DEV (%)	Composite Dispersion (%)
2022	5,228.7	89.0	265	2.38	1.87	-7.54	N/A	N/A	N/A

Fees *| Effective January 1, 2011, RMB' Capital's management fee schedule for this Composite is as follows: 0.50% on the first $3.0 million, 0.475% on the next $2.0 million, 0.450% on the next $5.0 million, 0.425% on the next $15.0 million, and 0.400% over $25.0 million. Actual management fees charged by RMB may vary. Composite performance is presented on a gross-of-fees and net-of-fees basis and includes the reinvestment of all income. Gross-of-fees returns means it is net of transaction costs but gross of asset management fees and custodian fees. The payment of actual fees and expenses would reduce gross returns. The compound effect of such fees and expenses should be considered when reviewing gross returns. The net returns are reduced by all actual fees and transactions costs incurred. The composite includes accounts that pay asset-based pricing for trading expenses. The maximum fee is 15 basis points per year; however, many accounts pay lower amounts due to household break-point relief. In addition to a management fee, some accounts pay a wealth management fee based on the percentage of assets under management to RMB Capital. 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 for the Equity Income composite.*

Comparison with Market Indices *| RMB compares its Composite returns to a variety of market indices such as the Russell 1000® Value Index. The index represents unmanaged portfolios whose characteristics differ from the Composite portfolios; however, it tends to represent the investment environment existing during the time period shown. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected and historical growth rates. An investment cannot be made directly in an index. The returns of the index do not include any transaction costs, management fees, or other 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 your account in the Composite. Benchmark returns presented are not covered by the report of independent verifiers.*

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.*