Equity Income

Portfolio Update: Third Quarter 2023

During the third quarter ending September 30, 2023, the Equity Income Composite (the "Strategy") returned -3.81%, gross of fees (-3.93%, net of fees), compared to -3.16% return for the Russell 1000® Value Index.

	3 Months	YTD	1 Year	Since Inception
Equity Income (Gross)	-3.81%	-1.23%	+11.91%	+0.64%
Equity Income (Net of IM fees)	-3.93%	-1.61%	+11.32%	+0.13%
Equity Income (Net of IM & WM Fees)	-4.16%	-2.34%	+10.23%	-0.86%
Russell 1000® Value Index	-3.16%	+1.79%	+14.44%	-3.41%

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 September 30, 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 has been applied in these calculations.

The weighted yield based on the indicated regular dividends (excluding special dividends) was 3.9%. This compares to the dividend yield of the Russell 1000® Value benchmark of 2.5% and the S&P 500 yield of 1.7%. Over the long term, we believe the Strategy will maintain a total dividend yield roughly 1x – 2x the S&P 500 dividend yield.

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, while one remained flat, Dow Inc. (DOW) and Kenvue Inc. (KVUE) initiated its first dividend as a stand-alone company. Excluding Dick's Sporting Goods Inc. (DKS), which doubled its dividend over the last 12 months, the average annual dividend increase was 5.9%. Dividend income contributed approximately 0.8% of total return in the quarter.

During the third quarter, equity markets declined, despite 79% of S&P 500 companies exceeding expectations (vs. 77% 5-yr average; source: FactSet). The decline was influenced by rising long-term interest rates, as the 10-year treasury yield increased +76bps from 3.81% to 4.57%. There are many plausible fundamental reasons for this backup in rates, including concerns of a government shutdown, Fitch's U.S. sovereign credit downgrade, and employment holding up better than most anticipated. There are also technical explanations for the move, like outsized supply of new treasury issuance coinciding with a reduction in demand from previously "price insensitive" buyers like foreign governments and the Fed. Or maybe, the bond market finally got the message that Chairman Powell means it when he says the Fed is going to keep Fed funds rates "higher for longer." Regardless of the reason, an increase in the "risk-free" rate affects the valuation of all assets. Thus, there was little differentiation between performance of value and growth stocks in the quarter. The Russell 1000® Value decreased -3.17%, while the Russell 1000® Growth decreased -3.13%. This was a departure from the year-to-date results, as the market has favored growth over value by a wide margin. YTD, the Russell 1000® Value has increased +1.79%, while the Russell 1000® Growth has increased 24.98%. As discussed previously and covered widely in the financial press, the strength in growth markets has been driven by the seven largest companies in the S&P 500, anointed "The Magnificent 7," which have been responsible for nearly all the YTD return of the benchmark. The narrowness of the market is clear when comparing the market-weighted benchmark (up 13.01% YTD) to the equal weighted benchmark (up 0.86% YTD). These market dynamics are unfavorable for an income-focused equity strategy like Equity Income.

The stocks of Utilities, REITs, and Telecommunications companies underperformed in the quarter. These business models require debt financing to operate. Rising rates hurt those companies disproportionately, both from the higher interest costs the companies will face as well as from the more attractive yields available from bonds, which compete for investor capital with these bond-like equities. Consumer Discretionary stocks were also under pressure, as investors anticipated the return of student loan repayments, slowing revenge travel, and higher levels of shrink (stolen goods) at retailers. The only sector in the Russell 1000® Value that was up in the quarter was Energy, as oil prices rebounded.

Contributors and Detractors

Our holdings in Energy and Financials contributed positively to results, while Industrial, Healthcare, and Consumer Staples contributed negatively.

Chevron Corp. (CVX) was the top contributor, contributing 47bps to performance. During the same period, WTI Crude oil prices increased 28%. While correlations are positive between the underlying commodity and stocks of companies that extract that commodity, the magnitude of change is often quite different, especially in the short term. With the continued disciplined production from OPEC and uncertainty in the Middle East, we believe that oil prices may remain elevated and CVX, which has among the highest exposure to oil prices among the global integrated companies, will benefit. We continue to believe that Chevron shareholders will be long-term beneficiaries of its disciplined growth strategy and increased focus on the return of capital. In the first half of 2023, Chevron completed $13.6 Billion of dividend payments and stock buybacks, compared to just $6.8 Billion of capital spending and acquisitions. Chevron ended the quarter with a 3.6% dividend yield.

Equity Income
THIRD QUARTER 2023 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Average Weight
Top Contributors		
Chevron Corp.	+47	6.07%
CME Group Inc.	+31	4.29%
Old Republic International Corp.	+31	4.54%
EOG Resources Inc.	+29	3.06%
Comcast Corp.	+26	4.24%
Bottom Detractors		
RTX Corp.	-120	3.74%
Merck & Co. Inc.	-64	6.20%
Kenvue Inc.	-55	2.27%
Dick's Sporting Goods Inc.	-49	2.91%
Texas Instruments Inc.	-48	4.33%

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.

Old Republic International Corp. (ORI) was also a positive contributor, contributing 31bps to performance. Old Republic has two primary lines of business: general insurance, focusing on niche commercial property & casualty insurance lines like trucking and workers compensation, and a title insurance business, where it is #3 in a consolidated industry. The company's earnings beat analysts' estimates by 15%. General insurance revenues grew 8%, underwriting margins were better than expectations, as reserves developed favorably, and title insurance underwriting showed some signs of bottoming. Old Republic's conservative underwriting and stable business model have allowed it to pay dividends for 82 consecutive years and increase the dividend in 42 consecutive years. The company also has a history of paying special dividends, but no such dividend has been announced yet this year. ORI ended the quarter with a 3.6% dividend yield.

RTX Corp. (RTX) was the largest detractor, detracting 1.20% from performance. The stock decline was due to a manufacturing anomaly related to microscopic contamination in the powdered metal used to make high pressure turbine discs in the Pratt & Witney geared turbo-fan engine. There have been no reports of failure in this equipment, but an enormous effort will be required to inspect these engines, which power a significant portion of the Airbus A320 NEO aircraft (about 1,200 engines). The company announced a $500 million charge in conjunction with the second quarter earnings and subsequently announced it will take an additional $3 Billion charge in the third quarter to account for the costs of the inspections, which will likely last through 2026. We were quick to reduce the Strategy's exposure to RTX, selling down the position on the morning of the announcement, given the increased uncertainty. We believe the market's pessimism now significantly outweighs the economic impact of this situation. To give perspective, the $3.5Billion of expected charges compares to decline in the market cap of over 10x that size (a $36B decline from $141billion to $105B). RTX competes in markets with extremely high barriers to entry and switching costs. In addition to being the second-largest commercial aircraft engine manufacturer, RTX is the second-largest U.S. defense contractor. Despite the additional costs, the company expects to generate over $4 billion of free cash flow in 2023 and $7.5 billion of free cash flow in 2025, supporting the current dividend policy. RTX ended the quarter with a 3.3% dividend yield.

Merck & Co. Inc. (MRK) detracted 0.64% from the Strategy's total return for the quarter. The quarterly results were better than consensus expectations, with over 20% organic growth in its largest franchise, Keytruda, which is the top selling cancer fighting drug in the world, and over 50% growth in its second-largest drug, Gardasil, led by growth in China as more countries adopt the vaccine to protect against Human Papillomavirus (HPV), which can cause cancer. Despite the strong results, MRK shares were weaker in the quarter. Some possible reasons for the decline include the impact of its $10.8 billion Prometheus acquisition, the inclusion of one of its drugs on the U.S. Government's list of the top drugs expected to face price negotiations in connection with the Inflation Reduction Act, and increased investor attention on companies with obesity-fighting drugs, where MRK has thus far been unsuccessful in development. MRK ended the quarter with a 2.8% dividend yield.

Portfolio Activity

Over the past 12 months, turnover in the strategy has been 14.4%, in line with our goal of keeping turnover low, but at healthy levels as stocks compete for a place in the Strategy. During the quarter, we sold two stocks to zero: International Flavors & Fragrances Inc. (IFF) and Walgreens Boots Alliance Inc. (WBA). Both companies are undergoing strategic change in efforts to improve profitability and growth. In both cases, the execution of those strategies was not progressing positively, so we chose to exit. IFF's integration of its 2021 merger with DuPont's Nutrition & Biosciences business has been disappointing. We sold the stock shortly after the company reported a material miss and a reduction in guidance. WBA's transition from drug retailer to a more profitable healthcare company was progressing slower than planned and costing more than expected. Weakness in its U.S. retail business put further pressure on profits. We began selling the shares in July and completed the sale in August, shortly before CEO Roz Brewer stepped down from her post.

This brings up the topic of our selling discipline. There are three primary reasons why we would sell a stock: 1) the stock has reached a fully valued or even over-valued level; 2) we have found a more attractive investment opportunity; or 3) the company has violated an important component of our investment thesis. In practice, when a stock has reached a full value (scenario 1), our typical response is to reduce the position rather than a complete sale of the stock. We invest in what we believe are high quality companies that we prefer to own for a long time with the goal to build wealth tax-efficiently for our investors. In our experience, trying to call a valuation top on a high-quality business has tended to result in missing additional gains over the life of the investment more often than saving from declines. Trimming these fully valued stocks frees up capital for more attractive investment opportunities (scenario 2). This quarter, for example, we raised funding for the new position in Kenvue Inc. (KVUE, discussed below) in part through the trim of a more fully valued position in PepsiCo Inc. (PEP), which has subsequently retreated by 15% and now looks more like an add candidate than a sell. Scenario 3, a thesis violation, is therefore the most likely to result in a complete sale of the stock. Those complete sales are the stocks we will discuss in this section of the strategy letter. It can be uncomfortable to talk about stocks that didn't work out the way we expected, but it is important to remember that investors are rewarded for taking risks in the face of uncertain outcomes. More things can happen than will happen, so we work hard every day to increase the probability of having more positive outcomes than negative outcomes. The use of a concentrated, but diversified portfolio of stocks is one way we mitigate the impact of these negative outcomes, when they occur.

During the quarter, we bought one new position, Kenvue Inc. (KVUE). Kenvue is the product of a split-off from portfolio holding Johnson & Johnson (JNJ). The company has a strong portfolio of iconic and trusted consumer healthcare brands like Tylenol, Band-Aid, and Neutrogena, among others. JNJ had arguably underinvested in the business and the current leadership (put in place three years ago while part of JNJ) has been pruning the brand portfolio, optimizing manufacturing and advertising, and investing to drive organic growth. Post split-off, KVUE is trading at a valuation discount and offers a premium dividend yield versus peers The Procter & Gamble Co. (PG) and Colgate-Palmolive Co. (CL). At the end of the quarter, KVUE had a dividend yield of 4.0%, compared to ~2.7% for peers PG and CL. We believe these differences will equalize over time and we are excited to see the company execute as a stand-alone. Historically, spin-offs have been a fertile ground for catalyzing positive change.

In addition to these changes to the portfolio, we added to our positions in Merck & Co. Inc. (MRK), Dick's Sporting Goods Inc. (DKS), and Chevron Corp. (CVX). We reduced positions in PepsiCo Inc. (PEP) and Hubbell Inc. (HUBB).

Outlook

After the most recent Fed policy meeting in September, the market started to get the message that "higher for longer" might be a real forecast. Interest rates climbed to levels not seen since before the global financial crisis that began in 2007. These comparisons to "pre-GFC" levels is a reminder that the financial reality we have lived in for the past 15 or so years has been a major outlier in all of financial history. Just a few years ago, there was over $18 Trillion USD of negative yielding debt globally (source: Bloomberg). That is not normal. So, as strange as it may feel to see mortgage rates over 7% and CD rates over 5%, we are just suffering from recency bias.

The pace at which we moved from 0% rates and quantitative easing to this more normal level of interest rates has been painfully quick and will likely lead to additional volatility beyond the bank runs we saw earlier this year. But, if the Fed and the markets can successfully manage a transition from extreme excess liquidity and zero interest rate policy to a 2-ish% inflation environment, while maintaining solid growth and historically low unemployment, it would be a miraculous needle thread. This "soft landing" or even "no landing" scenario for the economy has now become much more of a consensus view. Recall that coming into 2023, the consensus view was that the U.S would face a recession sometime in the back half of 2023. The Conference Board model now predicts a short and shallow recession in early 2024.

As Yogi Berra said, "It's difficult to make predictions, especially about the future." We concur, but it's not too much of a stretch to say that the next 15 years are likely to look a lot different than the last 15 years. That means that we *might* be looking at the early stages of a regime change, which we believe should be good for the companies in the Strategy.

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
Partner, Portfolio Manager

Equity Income

TOP TEN HOLDINGS AS OF 9/30/23	
Company	**% of Assets**
Chevron Corp.	6.80%
Merck & Co. Inc.	6.35%
Johnson & Johnson	5.96%
Watsco Inc.	5.55%
JPMorgan Chase & Co.	5.03%
Old Republic International Corp.	4.75%
Federal Realty Investment Trust	4.56%
CME Group Inc.	4.53%
Comcast Corp.	4.39%
Altria Group Inc.	4.34%

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.

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.

Equity Income

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

No performance due to insufficient data (less than 1 year since inception date).

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.*