# SMID Cap Core

## Portfolio Update: Third Quarter 2024

During the quarter ending September 30, 2024, the SMID Cap Core Equity Composite (the "Strategy") returned +8.69%, gross of fees, (+8.51%, net of fees), compared to a +8.75% return for the Russell 2500® Index.

| | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (Annualized) |
|---|---|---|---|---|---|---|---|
| SMID Cap Core (Gross) | +8.69% | +13.48% | +27.89% | +6.07% | +13.83% | +11.90% | +10.34% |
| SMID Cap Core (Net) | +8.51% | +12.91% | +27.03% | +5.32% | +13.03% | +11.02% | +9.41% |
| Russell 2500® Index | +8.75% | +11.30% | +26.17% | +3.47% | +10.43% | +9.50% | +9.12% |

*Inception date: March 31, 2004. 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, 2024. Curi RMB Capital acquired the composite by combining with IronBridge Capital Management on June 24, 2017. Composite performance prior to that date was achieved by IronBridge Capital Management. Refer to important information regarding performance and fees at the end of the document.*

The third quarter of 2024 saw a significant shift in market dynamics, with small-cap stocks outperforming their large-cap counterparts by over 300 basis points. This outcome supported our previous quarter's outlook section, "Benign Inflation Scenario: A Catalyst for market broadening and small cap outperformance." The "benign inflation" catalyst arrived on July 11th, when the CPI inflation report showed a decline for the first time since May 2020, igniting a risk-on rally. In the subsequent eleven days, small-caps surged ahead, outpacing large-caps by an impressive 13%.

However, the quarter was marked by substantial volatility. The VIX[1] fluctuated between 11 and 65, driving performance swings for the Russell 2000® Index from +14% to -14% within the quarter. A pivotal moment occurred on July 28th when the Bank of Japan unexpectedly raised interest rates by 25 basis points, triggering a global "margin call" causing highly leveraged investors to unwind yen carry trades. This event spiked the VIX to 65 and triggered small-cap stocks to decline 14%.

By the end of July, as earnings season progressed, stocks gradually regained ground as companies generally reported stronger-than-anticipated fundamentals.

The quarter's most significant development came on September 18th, when Federal Reserve Chairman Powell announced a 50 basis point cut in the Fed Funds rate. This decision marked the beginning of a new rate-cutting cycle and reduced the probability of a recession, potentially setting the stage for favorable market conditions, especially for small and mid caps, in the coming quarters.

As a more quality biased portfolio, the Strategy typically lags in strong "risk-on" markets. However, strong quarterly results from our larger position sizes helped the portfolio power through this headwind and keep pace in a strong "risk-on" market.

The best performing sectors were Technology, Materials, Financials, and Consumer Discretionary. Energy declined as oil fell from the mid $87per bbl to $72 per bbl.

[1] Chicago Board Options Exchange Volatility Index (VIX), is a real-time index that measures the stock market's expected volatility over the next 30 days.

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## Contributors and Detractors

Contributors benefited from a combination of better-than-expected company specific execution, as well as positive tailwinds from anticipated lower interest rates.

Fair Issac Corp. (FICO) benefited from Fed rate cuts that drive declining mortgage rates, which is a huge boost for its mortgage business. FICO's current mortgage inquiry volumes still run at just half of the level that they averaged in 2015-2019, which is meaningful room for upside. The anticipated score pricing increase will drive further upsides. It is a quiet quarter for the software business, but we continue to believe our thesis is nicely playing out as FICO is transforming into a more dynamic growth company by reinvesting into the software business.

Eagle Materials Inc. (EXP) had a nice recovery during the quarter driven by the improving cyclical trend. More specifically, its wallboard business started to see stabilizing volumes and improving pricings driven by the anticipated housing market rebound, as mortgage rates started to decline. The cement business remained resilient, evidenced by a sold-out condition and stronger pricings. Most importantly, EXP's industry-leading cost structure enabled them to defend the wallboard margin efficiently during the downcycle, which is a key idiosyncratic milestone of our investment thesis. We maintain the high conviction rating on the company despite the recent stock run.

NVR Inc. (NVR) is a premier quality homebuilder with a unique asset light value creation business model. It sells homes before construction and drives above average return on investment with less volatility. The secular housing shortage positions NVR's value creation to accelerate as interest rates come down and bring more buyers to the market.

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**THIRD QUARTER 2024 CONTRIBUTION REPORT**
*Ranked by Basis Point Contribution*

| | Basis Point Contribution | Avg. Weight |
|---|---|---|
| **Top Contributors** | | |
| Fair Issac Corp. | +164 | 5.61% |
| Eagle Materials Inc. | +101 | 3.42% |
| Pinnacle Financial Partners Inc. | +76 | 3.70% |
| NVR Inc. | +62 | 2.34% |
| Monolithic Power Systems Inc. | +58 | 4.18% |
| **Bottom Detractors** | | |
| Devon Energy Corp. | -41 | 2.23% |
| West Pharmaceutical Services Inc. | -27 | 2.56% |
| Diamondback Energy Inc. | -27 | 2.00% |
| Copart Inc. | -18 | 4.34% |
| MKS Instruments Inc. | -17 | 0.98% |

*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 Asset Management'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 detractors experienced headwinds from falling energy prices or reported disappointing company specific results.

Devon Energy Corp.'s (DVN) stock was a relative underperformer during the quarter, largely due to weaker oil prices that fell approximately 16% due to recession concerns (both domestically and in China) and fears that OPEC may raise production. After a rough 2023 as management was working through some inefficiencies, 2024 has been much better with two quarters of strong results and raised guidance. Importantly, this has been driven by continued improved efficiencies. Management continues to focus on shareholder returns (70% of FCF going toward dividends and repurchases) but is also looking at incremental bolt-on mergers and acquisitions. DVN continues to be a core oil earnings and profits holding.

West Pharmaceutical Services Inc. (WST) was an underperformer during the quarter, largely due to a miss and lowered guidance in the quarter as a result of customer de-stocking, as customers move toward more normalized safety stock levels as WST's lead times have moved from 50 weeks to 8 weeks. While the driver is not surprising, the magnitude is as management expressed confidence in the guidance coming out of the 1Q beat. The commentary was largely positive (QoQ revenue growth, YoY growth expected in 4Q and 2025 based on confirmed order book, expanding capacity to meet demand, coverage ratio improving, strong end markets driven by biologics, GLP-1 and increased regulations). However, investors remain skeptical of the visibility / timing of the recovery. We have confidence in management execution and competitive positioning going forward.

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## Portfolio Activity

As long-term business owners, turnover is typically low. However, we took advantage of the froth in AI to trim some larger positions in technology including Monolithic Power Systems Inc. (MPWR), Fair Isaac Corp. (FICO) and PTC Inc (PTC). We sold to zero Caribou Biosciences Inc. (CRBU) because we determined it was progressing toward our negative investment thesis.

We initiated a new position in Vaxcyte Inc. (PCVX) which is potentially disrupting the vaccine market with its XpressCF cell-free protein synthesis platform.

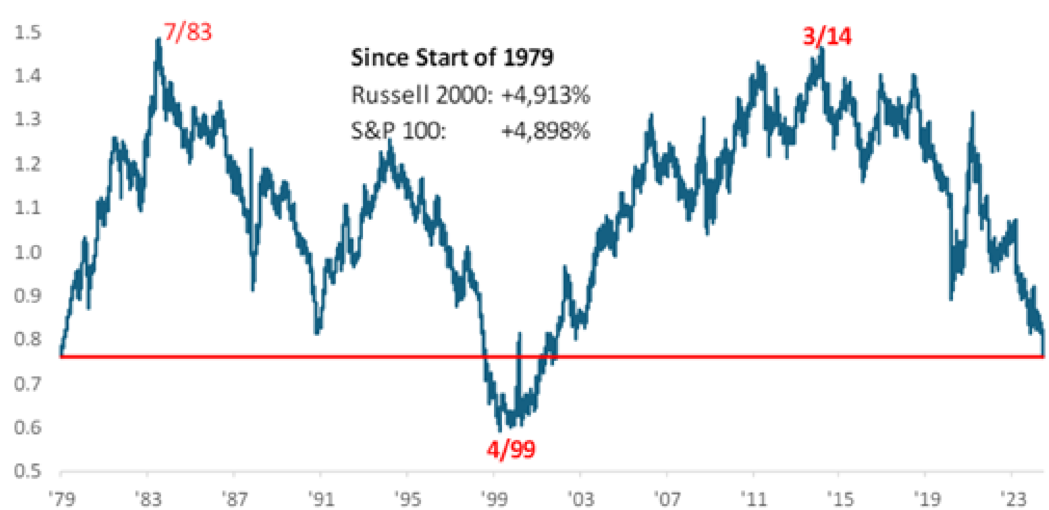
## Outlook

In last quarter's outlook we noted "Interest rates may emerge as the pivotal factor likely to shape investment returns for the remainder of the year…and a shift towards lower rates could usher in exciting opportunities for investors in smaller cap companies." We also noted that "benign inflation" could mark a turning point from large to smaller cap market leadership. While it is way too early to take a victory lap, we are pleased to see strength in relative performance of smaller cap vs. larger cap this quarter.

As a reminder markets exist to price risk not to deliver returns. Investor returns are simply the "risks you take that work minus the risk you take that do not work." Small cap indices have different risks than larger cap indices. Small caps have more credit and liquidity risk. They also have different factor risk with greater exposure to biotech, housing, domestic manufacturing, regional banks, and real estate. Smaller cap indices have less exposure to idiosyncratic risks, such as the "Mag 7" stocks[2]

So, while we cannot know for sure if the long-awaited outperformance for small caps has begun, conditions are in place if the new rate cutting cycle benefits banks, real estate, housing, and strengthens the domestic economy relative to the global economy.

**Exhibit 1. Ratio of Russell 2000® vs. S&P 100: 1979 – 2024**




Source: Bespoke Research. Red line indicates start and end points.

[2] The "Magnificent 7" refers to the following stocks: Apple Inc. (AAPL), Microsoft Corp. (MSFT), Alphabet Inc. (GOOG), Amazon.com Inc. (AMZN), Tesla Inc. (TSLA), Meta Platforms Inc. (META), and NVIDIA Corp. (NVDA).

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We do not typically address politics in the outlook, but we cannot ignore that we have an election coming up in November. Most likely we will end up with another "divided government" no matter who is elected president. Not a lot gets done, which is frankly a good thing for markets. However, the president can execute executive orders without congressional approval. If Trump is elected, we would expect more executive orders that benefit industries where regulations slow progress. We would expect more mergers in banking, approval for "free to choose" options that benefit biotech, less red tape for real estate, housing, and bitcoin. These beneficiaries tend to be more prevalent on a capitalization weighted basis within smaller cap indices. Tariffs may favor steel and other domestic manufacturing also more prevalent in smaller cap indices. Additionally, Trump's VP pick, Vance, with a private equity background, favors smaller tech companies who often do not achieve their potential because they get squashed or bought by mega-cap tech companies. There may be pressure on big tech from a second Trump administration also favoring small relative to large. Harris' executive order list is not as clear as it relates to the direct impact on businesses, but it is fair to assume it would resemble the status quo. We wouldn't be surprised to see smaller cap indices outperform large caps with a Trump victory and underperform with a Harris victory.

We are better at adapting than forecasting because we are mindful of Jame's Montier's advice, "If you don't know what is going to happen, don't structure your portfolio like you do." Confession: We don't know. The portfolio structure is efficiently diversified across sector and lifecycle because we have no idea what is going to happen. The portfolio is structured this way precisely to potentially improve the odds of outperforming across most of the likely scenarios, but also to potentially protect against unforecastable shocks, so that company specific value creation is the primary driver of excess return over the long-term.

We believe that by owning what we believe to be the best allocators of capital with skilled management teams that demonstrate knowledge building cultures, adaptability, and capital allocation consistent with long-term value creation, we believe we can own a portfolio of smaller companies that will grow to become larger companies, thereby providing our investors attractive long-term risk adjusted returns.

Thank you for your commitment to the Strategy.

Sincerely,

Chris Faber
Portfolio Manager

# SMID Cap Core

**TOP TEN HOLDINGS AS OF 9/30/24**

| Company | % of Assets |
|---|---|
| Fair Isaac Corp. | 6.01% |
| Monolithic Power Systems Inc. | 4.24% |
| Watsco Inc. | 4.19% |
| Copart Inc. | 4.18% |
| Eagle Materials Inc. | 3.79% |
| Pinnacle Financial Partners Inc. | 3.79% |
| Carlisle Companies Inc. | 3.49% |
| Avery Dennison Corp. | 3.17% |
| Tyler Technologies Inc. | 2.98% |
| PTC Inc. | 2.63% |

*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 Curi 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 U.S. economy. The S&P 500 focuses on the large cap segment of the market and covers approximately 75% of U.S. 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. The Russell 3000® Index is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market. The indexes do not reflect investment management fees, brokerage commissions, or other expenses associated with investing in equity securities.

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

***The Volatility Index or VIX*** *is the annualized implied volatility of a hypothetical S&P 500 stock option with 30 days to expiration. The price of this option is based on the prices of near-term S&P 500 options traded on CBOE Options Exchange, formerly known as* the Chicago Board Options Exchange *(CBOE), is the world's largest options exchange.*

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***The Russell 1000® Index*** *is a U.S. stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.*

***The S&P 100 Index*** *is a stock market index of United States stocks maintained by Standard & Poor's. Index options on the S&P 100 are traded with the ticker symbol "OEX".*

***Life Cycle Stages***

***Rockets****: These are hyper-growth, early-stage companies which consume a lot of capital as they try to execute their business model. Typically, they are innovative with new products, new services, or new business processes that may threaten the status quo of existing larger companies. Upside potential may be huge, but so is downside risk. Volatility is high, and results are often binary.*

***Golden Goodies****: These are Rockets that have survived and proven that they have viable long-term business models. They have historically tended to grow faster than the overall market and need to beat the fade in returns by continuing to fend off competitive threats. These have a history of being classic asset compounders and will continue to create wealth for as long as they can beat that fade.*

***Falling Angels****: These are Golden Goodies whose growth rates have slowed because they have become so large or their economic returns have been falling because of competitive threats or an inability to find reinvestment opportunities at current high rates of return.*

***Corks****: These are mature companies where the economic returns approximate the cost of capital. Asset growth does not add or destroy value, so improving the level of economic return is critical to their success.*

***Turn Arounds****: These distressed companies are the victims of overcapacity, weak competitive position, or poor capital allocation. In order to be successful, they must divest the lower return segments of their overall business.*

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**RMB Asset Management**

SMID Cap Core Composite // GIPS Report

**Organization** | Curi RMB Capital, LLC ("Curi 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 Curi RMB Capital. 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, 2022. 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 SMID Cap Core Strategy product reflects the performance of fully discretionary equity accounts, which have an investment objective of long-term growth that 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 Curi RMB Capital's proprietary economic return framework. For comparison purposes is measured against the Russell 2500® index. The inception date of the SMID Cap Composite is March 31, 2004 and the Composite was created on March 31, 2004. Valuations and returns are computed and stated in U.S. Dollars. Effective November 2021, Jeff Madden is no longer a portfolio manager for the strategy. There is no change to the strategy's investment process.

**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 2500® (%) | Composite 3-YR ST DEV (%) | Russell 2500® 3-YR ST DEV (%) | Composite Dispersion (%) |
| 2023 | 6,235.50 | 140.00 | <5 | 21.14 | 20.10 | 17.42 | 20.24 | 20.15 | 0.51 |
| 2022 | 5,228.66 | 137.04 | <5 | -20.11 | -20.87 | -18.37 | 24.06 | 25.16 | 0.18 |
| 2021 | 6,277.61 | 348.24 | <5 | 29.37 | 28.27 | 18.18 | 20.05 | 22.48 | 0.44 |
| 2020 | 5,240.59 | 269.42 | <5 | 25.78 | 24.69 | 19.99 | 21.75 | 24.21 | 0.00 |
| 2019 | 4,947.90 | 178.96 | <5 | 32.61 | 31.5 | 27.77 | 13.52 | 14.58 | 0.98 |
| 2018 | 4,196.90 | 175.89 | <5 | -4.12 | -4.99 | -10.00 | 13.24 | 14.10 | 0.14 |
| 2017 | 3,610.61 | 310.59 | 5 | 14.68 | 13.69 | 16.81 | 10.64 | 12.14 | 0.28 |
| 2016 | NA | 448.67 | 9 | 13.33 | 12.34 | 17.59 | 12.04 | 13.67 | 0.23 |
| 2015 | NA | 775.77 | 9 | 0.07 | -0.82 | -2.90 | 11.47 | 12.42 | 0.21 |
| 2014 | NA | 994.30 | 8 | 4.74 | 3.82 | 7.07 | 11.03 | 11.67 | 0.28 |

**Curi RMB Capital acquired the composite by combining with IronBridge Capital Management on June 24, 2017. Firm assets prior to 2017 are not presented as the composite was not part of the firm. Composite performance prior to that date was achieved by IronBridge Capital Management.*

***Fees** | The standard management fee is 0.90% of assets annually, which is also the highest applicable fee. Net returns are computed by subtracting the highest applicable fee (0.90% on an annual basis) on a quarterly basis from the gross composite quarterly return, and the resulting quarterly net figures are compounded to calculate the annual net return. 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. For periods prior to 2018, net returns are computed by subtracting the highest applicable fee (0.90% on an annual basis, or 0.075% monthly) on a monthly basis from the gross composite monthly return, and the resulting monthly net figures are compounded to calculate the annual net return. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Prior to 2018, internal dispersion was calculated using the equal weighted standard deviation 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** | The account minimum in the SMID Cap Core Composite is currently $2.0 million. Prior to January 1, 2015, the composite excluded portfolios under $5.0 million.*

***Comparison with Market Indices** | Curi RMB Capital 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 SMID Cap Core composite is the Russell 2500® Index, which for comparison purposes is fully invested and includes the reinvestment of income. 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 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.*