U.S. Alpha

Portfolio Update: First Quarter 2019

During the first quarter, the U.S. Alpha Equity strategy (the "Strategy") increased +11.69% gross of fees (+11.69% net of fees), underperforming the Russell 3000 Index's +14.04% return. To put the strong start to the year into perspective—the S&P 500 Index logged its best first quarter since 1998. After four consecutive quarters of excess return, it is not a surprise that the Strategy underperformed during the "risk on" reversal of the stock market given the high-quality nature of our holdings. From a traditional attribution perspective, allocation drove the majority of underperformance during the quarter given the Strategy's 9% average cash level. With an eye toward being opportunistic, we allow for cash levels to be a function of bottom-up opportunity. Stock selection was negative in the information technology and financials sectors, which was mostly offset by positive stock selection in the healthcare, industrials, and materials sectors. The goal of the Strategy is long-term growth of capital, and from that perspective, we feel good about the strong absolute return delivered in the quarter while also acknowledging we are taking less risk than the Russell 3000 as defined by portfolio beta.

	3 Months	YTD	1 Year	3 Years	Since Inception (Annualized)
U.S. Alpha (Gross)	+11.69%	+11.69%	+11.57%	+15.64%	+12.72%
U.S. Alpha (Net)	+11.69%	+11.69%	+11.57%	+15.09%	+12.06%
Russell 3000 Index	+14.04%	+14.04%	+8.77%	+13.48%	+9.72%

Inception date: December 31, 2014. 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.

Contributors and Detractors

Ecolab Inc. (ECL, +20.13%), a best-in-class specialty cleaning chemical company with a heavy focus on customer service, was the Strategy's largest contributor. The company reported strong organic growth, spun out its upstream energy business into an independent company, and provided a robust outlook for the fiscal year. Although Ecolab has "staple" characteristics, it is truly a science-based company, with a Vitality Index of 30% (sales from products introduced in the prior five years), 1,600 people in the Research & Development (R&D) organization, and 8,200 patents. Moreover, the company has seen that positive change accelerates when economic and environmental goals come together as highlighted in the 2018 letter to shareholders, "… through our unique blend of technology, expertise and on-site service, we helped our customers save 188 billion gallons of water and reduce energy use by 19 trillion BTUs. By using recycled plastics and reusing packaging, we reduced our customers' plastic use by 54 million pounds."

Amazon.com Inc. (AMZN, +18.58%), a leader in two large and rapidly growing markets—eCommerce and Cloud Services—was the Strategy's second-biggest contributor. The company continues to gain market share in eCommerce and deliver hyper-growth in Amazon Web Services. Moreover, Amazon's total addressable market is estimated at over $45 trillion, and the company just scratched the surface in verticals such as healthcare, apparel, business-to-business (B2B), and groceries. Management indicated that after a slower pace of overhead investment in 2018, infrastructure spend will reaccelerate in 2019 in order to capitalize on multiple growth opportunities in retail, technology, logistics, and media. Although the initial reaction to this guidance was viewed negatively by Wall Street traders, we applaud management's long-term focus on wealth creation despite the short-term impact on profitability.

Markel Corp. (MKL, -4.03 %), a diverse holding company that serves and operates in a variety of niche markets and activities, was the Strategy's biggest detractor. Its businesses include property and casualty (P&C) insurance underwriting, P&C fronting business, insurance-linked business, internal investing, and an amalgamation of non-insurance businesses that serve a variety of niches. We believe Markel is skilled in underwriting risk, investing, and allocating capital. Recent underperformance at MKL is primarily related to under-reserving missteps within Markel CATCo (acquired in 2015), which is one of Markel's primary insurance-linked businesses where Markel stands as the largest industry player. As a consequence of the reserving issues, Markel took the appropriately conservative step to write off the entire goodwill and intangible assets associated with the business. The company has a culture of learning and adapting, and the experience at Markel CATCo was detailed at length in their 2018 shareholder letter. Consequently, we feel that Markel will rectify and optimize this platform for a better customer experience, which, in turn, will reward shareholders over time.

Illumina Inc. (ILMN, +3.60%), the dominant leader in DNA sequencing with greater than 90% market share, was the Strategy's second-biggest detractor during the quarter. The company reported a slightly cautious view on the consumer genomics opportunity and that the current fiscal year will be more back-end loaded than it was in 2018. The bigger opportunity of the genomic revolution was summarized by the CEO Francis deSouza at the J.P. Morgan Healthcare Conference, "We are at the very beginning… the ubiquity and impact of genomics will dwarf everything we've seen to date." He mentioned three statistics that underscore his point: less than 0.01% of species have had their genomics sequenced, less than 0.02% of human genomes have been sequenced, and less than 1% of variants in the human genome have been fully characterized. These low percentages represent an enormous long-term opportunity for the company.

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FIRST QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Ecolab Inc. (ECL)	+919	+20.13
Amazon.com Inc. (AMZN)	+125	+18.58
Visa Inc. Class A (V)	+119	+18.60
Roper Technologies Inc. (ROP)	+111	+28.54
Microsoft Corp. (MSFT)	+109	+16.63
Bottom Detractors		
Markel Corp. (MKL)	-24	-4.03%
Illumina Inc. (ILMN)	+4	+3.60%
Vail Resorts Inc. (MTN)	+15	+3.92%
Charles Schwab Corp. (SCHW)	+20	+3.34%
Teledyne Technologies Inc. (TDY)	+25	+14.48%

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 Portfolio. 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

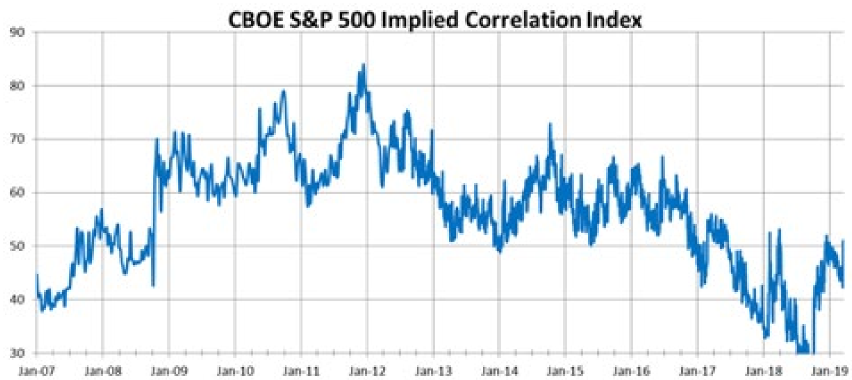
There were no new positions or complete sales in the portfolio. We believe low turnover is an outcome of being early with genuine company insights and having a patient temperament. Moreover, low turnover allows for deferred tax gains to compound in an efficient manner. As we like to remind ourselves, pick right for the long term, and then the best thing to do is usually nothing (action through non-action).

Outlook

A remarkable reversal of the Federal Reserve's ("the Fed") monetary policy from hawkish to dovish early in the year ignited the stock market rally. The fed funds futures market has moved from pricing a greater than 90% chance of no hikes in 2019 to a more than 50% chance that we will see a rate *cut* by the end of the year. Warren Buffett recently commented, "If you tell me that 3% long bonds will prevail over the next 30 years, stocks are incredibly cheap… interest rates govern everything." To be more specific about the importance of interest rates and present value arithmetic, we estimate that for every 50-basis-point increase/decrease in the equity discount rate, the stock market declines/increases roughly +/- 10%. The real, after-tax U.S. equity discount rate decreased around 60 basis points during the first quarter of 2019 and is explanatory for the majority of the stock market rally. However, with the real, after-tax U.S. equity discount rate at 4.8% (low by historical standards), a sharp rise in inflation almost assuredly means a sharp rise in the equity discount rate, resulting in lower stock prices.

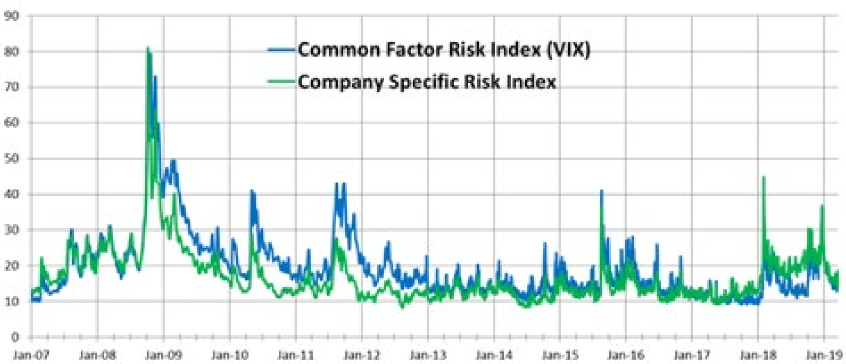
A primary reason for the stock market rise this past quarter is how Chairman Powell used the Fed's only punch card to suddenly reverse course from the infamous "autopilot" balance sheet wind-down. He implemented a much more dovish monetary policy stance, eliminating balance sheet reductions and rate hikes. As such, the future performance of the stock market is now more dependent on the health of Corporate America and the U.S. economy as opposed to the Fed saving the day again. Corporate America (excluding financials and utilities) continues to demonstrate resilience, delivering economic returns of approximately 10% in 2018—well in excess of the equity discount rate and the highest level since 2007. But consensus is expecting zero or negative year-over-year earnings growth in the U.S. in Q1 and Q2 and only 3-5% earnings growth for the full year. Positive signals for healthy U.S. economic growth include: low unemployment, lukewarm inflation, share repurchases, deregulation, and progress on trade talks between Washington and Beijing. The latter is a key milestone given the high economic linkages between the two countries. Given the historically low level of the real, after-tax U.S. equity discount rate and traditional valuation metrics being higher than historical averages, we expect stock market returns to be more modest through the course of the year with likely higher volatility, which we are positioned to exploit.

Although the Fed has reversed to a much more dovish monetary policy, we continue to expect more volatility as the stock market anticipates an inevitable pivot from quantitative easing (QE)—characterized by high equity correlations and low dispersion—to quantitative tightening (QT) and higher dispersion of individual stock returns. Higher dispersion is helpful for investors who are able to select undervalued (attractive risk-reward) stocks due to distinct company-specific reasons (i.e., not factor or systematic risk). The following chart shows dispersion is at the 85% percentile relative to the past decade.

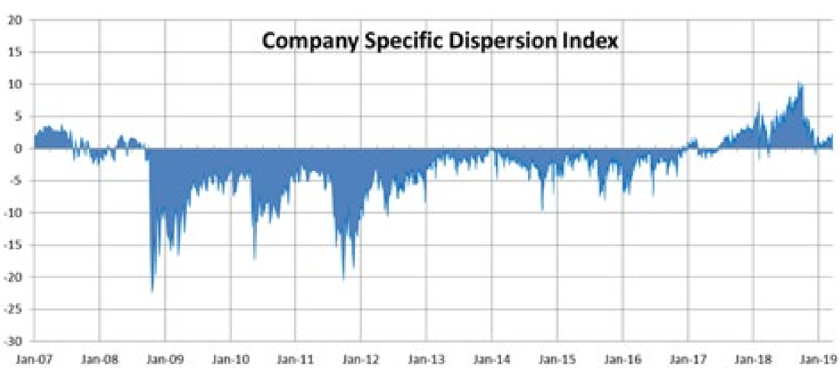


A Higher Implied Correlation Index Indicates Higher Common Factor Risk Relative to Company Specific Risk

Common Factor Risk cannot be Diversified Away. Company Specific Risk can be Diversified.



While the VIX has been Recently Trending up, Company Specific Risk as measured through Option Prices is Trending Up Faster



Dispersion has been rising since late 2016, and is currently at the 85% percentile over the last 10 years.

Source: Credit Suisse

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We welcome higher dispersion and continue to believe the current environment is well suited for our Strategy. As a byproduct of our high-quality focus, we avoid speculative credit and low-liquidity risk companies. While this proved to be a headwind for high-quality managers during QE, we believe the reverse will be true during QT. We are positioned to exploit increased volatility in the near term with 9% cash levels and anticipate our concentrated portfolio of high-quality businesses to continue to generate above-market returns over the long term.

Commitment to Our Investors

It has taken us much time and thoughtful evaluation from lessons learned over 20 years of investing to arrive at the following principals:

- Invest with a long-term owner's mindset and exploit short-term renters
- Focus on causation—high managerial skill, knowledge-building cultures, and distinct, adaptable capabilities
- Employ an economic return framework to minimize accounting distortions and convert analysis of intangible assets into long-term cash flow forecasts
- Require twice the upside versus downside for all investments
- Eschew the tyranny of benchmarks in favor of a concentrated portfolio of our highest-conviction investments
- Focus on the investment process, not the outcome
- Invest a significant portion of personal capital alongside our clients

We have been and will continue to be unwavering in applying these principles.

Sincerely,

Jeffrey B. Madden

Jeffrey B. Madden
SVP, Portfolio Manager

TOP FIVE HOLDINGS AS OF 3/31/19

Company	% of Assets
Ecolab Inc. (ECL)	6.78%
Amazon.com Inc. (AMZN)	6.70%
Visa Inc. Class A (V)	6.43%
Johnson & Johnson (JNJ)	6.07%
Microsoft Corp. (MSFT)	5.69%

Holdings are subject to change. Portfolio characteristics are intended to provide a general view of the entire portfolio, or Index, at a certain point in time. Characteristics are calculated using information obtained from various data sources. Past performance is not indicative of future results, and there is a 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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Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The opinions and analyses expressed in this letter are based on RMB Capital Management, LLC's ("RMB Capital") research and professional experience, and are expressed as of the date of our mailing of this letter. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future performance, nor is it intended to speak to any future time periods. RMB Capital makes no warranty or representation, express or implied, nor does RMB Capital accept any liability, with respect to the information and data set forth herein, and RMB Capital specifically disclaims any duty to update any of the information and data contained in this letter. The information and data in this letter does not constitute legal, tax, accounting, investment, or other professional advice. The information provided in this letter should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the Portfolio at the time you receive this letter or that securities sold have not been repurchased. The securities discussed do not represent the entire Portfolio and in the aggregate may represent only a small percentage of their holdings. It should not be assumed that any securities transaction or holding discussed was or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of security recommendations made during the past 12 months is available upon request. An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not account for 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 your account. The Russell 3000 measures the performance of the largest 3000 U.S. companies, representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually. High-quality investing is an investment strategy based on a set of clearly defined fundamental criteria that seeks to identify companies with outstanding quality characteristics. The quality assessment is made based on soft (e.g., management credibility) and hard criteria (e.g., balance-sheet stability).