Dividend Growth

Portfolio Update: Third Quarter 2019

The Dividend Growth Portfolio (the "Portfolio") rose +4.23% gross of fees (+4.09% net of fees) in the third quarter of 2019, ahead of the S&P 500 Index and Morningstar U.S. Dividend Growth Index, which increased +1.70% and +3.12%, respectively. Year to date, the Portfolio increased +23.11% gross of fees (+22.66% net of fees) versus +20.55% for the S&P 500 and +20.26% for the Morningstar index.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Dividend Growth Strategy	+4.09%	+22.66%	+10.83%	+13.23%	+10.04%	+10.70%	+7.05%
S&P 500 Index	+1.70%	+20.55%	+4.25%	+13.39%	+10.84%	+13.24%	+8.83%
Morningstar U.S. Dividend Growth Index	+3.12%	+20.26%	+8.35%	+15.05%	+12.03%	+14.05%	+9.83%

Inception date: April 1, 2005. Performance is presented net of RMB Asset Management's maximum management fee and transaction costs. Performance is not net of RMB's Wealth Management advisory fee (if applicable). 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.

We were encouraged by the Portfolio's relative return in the third quarter compared to its two passive benchmarks. Given the substantial rebound in the market year to date, we're also happy with year-to-date relative returns as we believe the Portfolio is more defensive than the overall market given the quality of the companies and correspondingly lower risk profile that we own. The absolute return year to date is also quite impressive as the market has bounced back nicely from last year's substantial fourth-quarter selloff. The first three quarters of the year represent the highest market return since 1997, however; as we learned last year, markets can change quickly. From a traditional attribution perspective, the Portfolio's outperformance in the third quarter vs. the S&P 500 was nearly all driven by stock selection. The industrials, information technology, and consumer discretionary sectors were notable standouts, partially offset by a negative contribution from the consumer staples sector. We will discuss individual holdings impact on performance in a bit.

The third-quarter market environment saw a significant increase in volatility, bolstered by the ongoing trade war between the U.S. and China, monthly economic data, falling interest rates, and a proposed impeachment inquiry of the president near quarter-end. Chalking it all up, a more turbulent economic and political environment seems to be the "new normal" that could frame our investing backdrop for the next few quarters. The U.S. has remained one of the strongest and most resilient economies in the world over the past couple of years, although recent domestic data points have pointed toward further deceleration in growth. In particular, the manufacturing sector of the U.S. economy has really weakened, while the larger consumer-focused sector has remained fairly strong. Fears of a recession on the intermediate horizon have clearly grown, with the 10-year Treasury yield falling 34 basis points from 2.01% to 1.67% in the quarter, and down from 3.06% a year ago. The Fed followed through with its more dovish positioning with another 25 basis-point cut to rates in September, which they are billing as a "mid-cycle correction" in policy rather than an extended easing cycle. Lower rates and an accommodative Fed are typically good for the stock market; however, if it's foreshadowing more economic weakness, then it could be viewed as a leading indicator that we are nearing the end of a 10-year economic expansionary cycle.

Second-quarter earnings reports released in the third quarter saw revenues and earnings continue to surprise positively vs. very low expectations, although year-over-year earnings growth for the market as a whole was up less than 1%. The concerns about the sustainability of revenue growth and historically high profit margins have only grown, and it's likely that 2020 earnings estimates remain too high. Current consensus, according to Yardeni Research, is for 11% earnings growth in 2020, which seems far too optimistic vs. a deteriorating economic environment hurting top-line growth and ongoing margin pressures. The negative forward revisions we've seen over the past few months could continue with the next round of earnings reports coming this month and into November. Given high levels of uncertainty around global growth and the lingering trade impacts, we would expect management teams to remain on the conservative side when setting forward expectations and will watch closely for any change in management's tone toward demand for their products and services.

Our message about overall equity valuations is nearly identical with how we felt at the end of last quarter. While not overly expensive, especially given an even lower interest-rate backdrop, we are not finding bargains to be abundant by any means, particularly in our quality growth universe. As we'll discuss in a bit, the Portfolio is seeking a couple of strong new ideas, but attractively priced entry points in individual names with good fundamentals are hard to find. From a bottom-up, individual company perspective, the Portfolio has more reward-to-risk ratios under one than it has greater than one. This was much different from where we stood at the end of 2018 after the big fourth-quarter selloff, which reflects the significant rebound in prices year to date without any upward revisions in earnings estimates or growth expectations. Said another way, the market return this year has come entirely from multiple expansion. From a longer-term perspective, we also must be cognizant of the fact that we are, more likely than not, in the late innings of a historically long positive economic cycle. While we do not necessarily see a recession as imminent, the probability continues to get larger, particularly as the trade war with China deepens and extends in duration. The U.S. consumer has been quite resilient as low unemployment and wage gains have helped offset weaker parts of the economy. As we have penned recently, the concept of "peak earnings" has remained a debate these days that, even if the U.S. does not roll into a meaningful economic recession, we could be close to the peak in corporate profitability given outside pressures on margins (particularly wage inflation) and deteriorating economies outside the U.S. As always, macro market predictions are very difficult to make, and we remain focused on opportunistic, bottom-up stock selection, continuing to manage a concentrated, yet diversified, portfolio of high-quality individual companies that can grow their earnings and dividends for years into the future. No matter what happens with the current market cycle, we strongly believe the strategy positions us to outperform over the long run without taking undo risk.

Contributors and Detractors

The table to the right shows the Portfolio's largest contributors and detractors to performance ranked by basis-point contribution. Ritchie Bros. Auctioneers Inc., the largest provider of both physical and online auctions for used machinery and equipment, was the Portfolio's biggest contributor. The stock has responded positively to an increased supply of equipment coming to auction, which could be a nice cyclical tailwind. In many ways, Ritchie's business is counter cyclical in that it benefits when many of its customers' end-markets are struggling. The secular part to the longer-term story has been the marrying of the online world through its Iron Planet platform with its live physical auctions. We like the intermediate-term opportunity for the stock to outperform, although the current valuation isn't overly compelling, thus it's a medium-sized position. Raytheon, the largest defense contractor, which we initially purchased last quarter, was the second-best contributor. The stock has performed better after a solid second-quarter earnings report and outlook, combined with greater understanding amongst the investment community for the proposed merger with United Technologies. We continue to like the long-term prospects for the stock and its defensive characteristics, and it's our fourth-largest weighting at quarter-end.

On the negative side of the performance ledger, we had a few names whose prices underperformed the market in the quarter, adversely affecting the Portfolio's overall return. Health insurance giant UnitedHealth was the largest detractor despite a very good second-quarter earnings report. Rhetoric from some of the Democratic presidential candidates around a proposed Medicare For All plan, which, at its most extreme, would basically eliminate private health insurance in the U.S., increased during the quarter.

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THIRD QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Ritchie Bros. Auctioneers Inc.	+67	+20.74%
Raytheon Co.	+56	+13.44%
American Tower Corp.	+53	+8.62%
Apple Inc.	+51	+13.60%
Lowe's Companies Inc.	+47	+9.55%
Bottom Detractors		
UnitedHealth Group Inc.	-0.42	-10.53%
Diageo PLC	-0.18	-5.11%
Union Pacific Corp.	-0.18	-3.64%
Chevron Corp.	-0.11	-3.71%
TE Connectivity Ltd.	-0.09	-2.24%

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. 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.

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Given the myriad of hurdles, and its unpopularity with constituents, we think the odds of this ever becoming law are quite low, and over time, the overhang on the stock will lift. We used the decline in the stock price to add modestly to our position, which is now about average in the Portfolio. Moving from health care to alcoholic spirits, Diageo (DEO) was the second-largest detractor, albeit only down modestly in the quarter. Despite a reasonably healthy mid-year report, the stock has pulled back a little from its recent high as concerns over any impact from Brexit and potential tariffs have lingered. While Diageo is by no means a fast-growing business, we like the long-term, slow-and-steady organic growth driven by premiumization of its global brands. The business has high free-cash-flow conversion, which should provide a lot of optionality in how to deploy it for the benefit of shareholders, including a growing dividend.

TOP 10 HOLDINGS AS OF 9/30/19

Company	% of Assets
American Tower Corp.	6.10%
Microsoft Corp.	5.96%
Lowe's Companies Inc.	5.25%
Becton, Dickinson and Co.	4.66%
Raytheon Co.	4.65%
CME Group Inc.	4.51%
Microchip Technology Inc.	4.39%
Starbucks Corp.	4.35%
Morgan Stanley	4.32%
Union Pacific Corp.	4.30%

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.

Portfolio Activity

The Portfolio did not purchase or fully exit any names during the third quarter. We did some modest changing of position sizes, but the lineup of companies remained the same. For many managers, it would be highly unlikely to go a full quarter without purchasing a new idea, but for us, it does happen from time to time given our concentrated portfolios, long-term investment horizon and desire for low turnover in the strategy. While we always want new ideas "competing for capital" to get into the Portfolio, we also strive to own very high-quality, growing businesses in which we can compound value for years, not months or quarters. We did purchase one new security shortly after quarter-end, which we will report on post the fourth quarter.

Outlook

From when we last wrote you three months ago, market volatility has picked up somewhat with the backdrop of further declines in long-term interest rates, increased economic uncertainty, and more political upheaval. For the most part, the market has taken it in stride, although, as we pen this letter in early October, volatility has increased. The upcoming corporate earnings report season that is about to kick off will once again refocus the market back on individual company fundamentals, where we have some areas of concern. Inflationary pressures from a tighter labor market, overseas demand levels, and the impact from tariffs will be areas of focus. Given a fair amount of macro uncertainty, we think management teams will continue to have an extra level of conservatism embedded in their 2019 guidance, and any early thoughts toward 2020 could temper optimism for better growth. Near-term U.S. economic data points have generally been quite mixed, with a bias toward decelerating growth and lower business confidence. We are also approaching the one-year mark until the presidential election, which along with an impeachment inquiry, is going to dominate the news cycle from here forward.

Overall, we have some reservations about the momentum in U.S. corporate earnings growth, which is the biggest long-term driver of stock prices. As we've discussed, risks to revenue growth and margins are abundant, which could lead to "peak earnings" or "plateauing earnings" in 2019 or 2020. With the overall market multiple having re-inflated from 2018 year-end levels, it now sits about 18x 2019 and 16.2x 2020, with next year's estimates likely being too high. The long-term average for the market is around 16x, but given we may be nearing peak earnings, there might not be a whole lot of value implied in current market expectations. As always, while we may opine on our view of the overall market, we do not pretend to have any ability to predicting where the market is heading in the short or intermediate term. Market timing is a very difficult, if not impossible, task to add value with. We continue to focus the Portfolio's efforts on owning companies with good growth prospects, strong economic moats, underleveraged balance sheets, superior management teams, and an ability to grow dividends. These are companies we believe can compound value for shareholders for years into the future. The opportunities to find high-quality dividend growth companies selling at attractive valuations are becoming more abundant after the recent sell off, and we continue our "bottom-up" search to optimize the Portfolio. Our disciplined investment process focuses more on individual company fundamentals and less on the overall market. We also believe that a strategy focused on high-quality companies can distinguish itself in a more volatile market environment.

Thank you for the continued trust you place in us to manage your assets. If you have any questions, please do not hesitate to contact us.

Sincerely,

Todd Griesbach
Portfolio Manager

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 Morningstar U.S. Dividend Growth Index is a subset of the Morningstar U.S. Market Index, a broad market index representing 97% of U.S. equity market capitalization. It is a benchmark consisting of securities that: (i) pay qualified dividends; and (ii) are screened for a minimum of five years of uninterrupted annual dividend growth. The S&P 500 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 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 stocks are those that we believe offer greater reliability and less risk. The quality assessment is made based on a combination of soft (e.g., management credibility) and hard (e.g., balance sheet stability) criteria.

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RMB Asset Management

Dividend Growth Strategy // Annual Disclosure Presentation

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 was 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 period April 1, 2005 through December 31, 2017. Verification assesses whether: (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis; and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The Dividend Growth composite has been examined for the period of April 1, 2005 through December 31, 2015. The verification and performance examination reports are available upon request. RMB AM maintains a complete list and description of composites, which are also available upon request.

Description | The Dividend Growth Strategy reflects the performance of fully discretionary dividend growth accounts, which have an investment objective of long-term growth using a portfolio of primarily large-cap stocks and, for comparison purposes, is measured against the S&P 500 index. The Dividend Growth Composite was created on April 1, 2005 and includes all accounts that are managed in accordance with the Dividend Growth investment strategy. An account is included in the Composite on the first day of the first full month the account is under management. An account is removed from the Composite as of the last day of its last full month. Account performance is based on total assets in the account, including cash and cash equivalents. Results are based on fully discretionary accounts under management, including those accounts no longer managed by RMB. Valuations and returns are computed and stated in U.S. Dollars.

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 (%)	S&P 500 (%)	Composite 3-YR ST DEV (%)*	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets	Composite Dispersion (%)
2018	4,196.9	204.3	475	-2.11	-2.58	-4.38	10.91	10.80	0.07	0.36
2017	3,610.6	219.4	507	19.21	18.64	21.83	10.11	9.92	0.07	0.40
2016	3,047.5	204.6	516	14.77	14.21	11.96	10.95	10.59	0.06	0.41
2015	3,706.0	215.8	571	-6.54	-6.99	1.38	10.47	10.47	0.05	0.40
2014	3,312.9	260.4	640	12.48	11.93	13.69	9.68	8.97	0.04	0.38
2013	3,248.5	265.8	691	30.44	29.81	32.39	12.09	11.94	0.04	0.51
2012	2,585.9	200.5	621	14.52	13.93	16.00	14.98	15.09	0.04	0.47
2011	2,218.0	112.7	344	3.10	2.59	2.11	18.23	18.70	0.00	0.64
2010	1,881.9	25.2	127	2.33	1.05	15.06	N/A	N/A	0.00	0.70
2009	1,613.9	29.7	189	28.81	27.20	26.46	N/A	N/A	0.00	1.16
2008	1,113.6	30.6	210	-36.62	-37.43	-37.00	N/A	N/A	0.00	0.50
2007	1,420.6	18.1	92	10.51	9.07	5.49	N/A	N/A	0.00	0.40
2006	1,070.2	10.3	64	13.29	11.91	15.79	N/A	N/A	0.00	0.50
2005**	811.9	2.7	15	7.92	6.90	7.22	N/A	N/A	0.00	N/A

The 3 year ex-post standard deviation is not presented prior to 2011 because it is not required. Results shown for the year 2005 represent partial period performance from April 1, 2005 through December 31, 2005.*

Fees *| Effective January 1, 2011, RMB Capital's asset 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 asset 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, custodian fees and withholding taxes. 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. Returns for those accounts prior to 3/1/19 do not reflect the deduction of asset-based pricing, and are therefore gross of trading expenses. These accounts represent approximately 81% of composite assets. In addition to an asset 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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.*

Minimum Value Threshold *| There is no account minimum in the Dividend Growth Strategy.*

Comparison with Market Indices *| RMB compares its Composite returns to a variety of market indices such as the S&P 500. 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. 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 not indicative of further results, and there is a risk of loss of all or part of your investment. 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. Total Firm Assets as of 12/31 for the years 2010, 2011, and 2012 have been revised to exclude assets from personal trading accounts that were included in previously reported figures.*