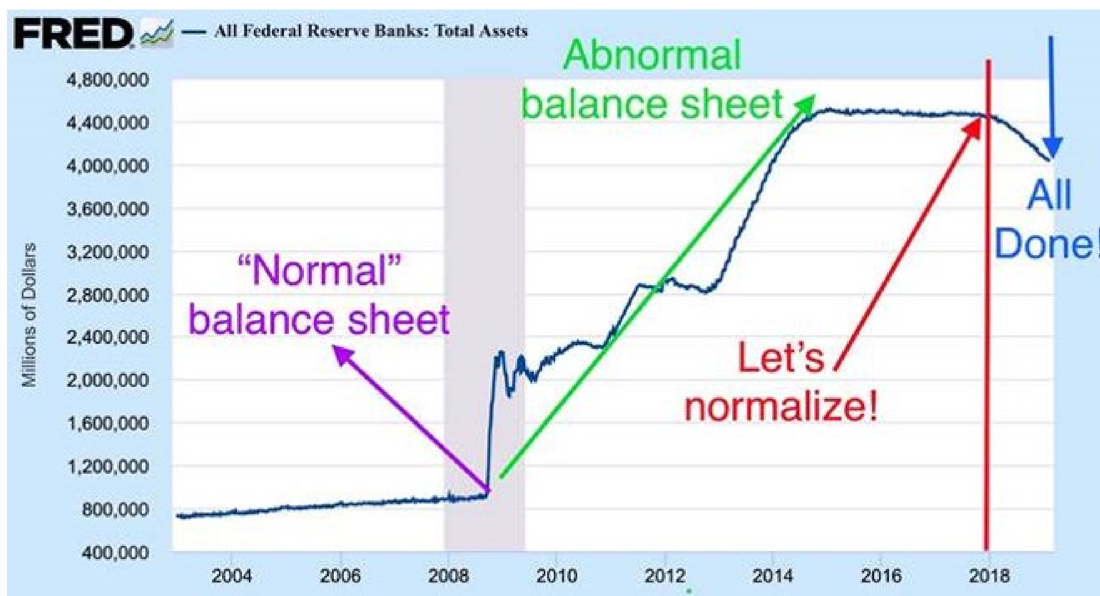
Small Cap Core

Portfolio Update: First Quarter 2019

During the first quarter, the Small Cap Core Composite (the "Portfolio") increased +15.18% gross of fees (+14.90% net of fees), modestly outperforming the Russell 2000 Index's gain of +14.58%. The strong start to the year coincides with a more dovish tone by Federal Reserve Chairman Jerome Powell. Mr. Powell pivoted from signaling a hawkish path on interest rates and quantitative tightening (QT), that seemed to be on auto pilot, to a dovish path that emphasized flexibility, and perhaps even reducing interest rates. Additionally, he signaled an intention to end QT earlier than planned and maintain a larger balance sheet at the Federal Reserve ("the Fed").

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Small Cap Core (Gross)	+15.18%	+15.18%	+7.71%	+12.30%	+7.77%	+15.20%	+11.29%
Small Cap Core (Net)	+14.90%	+14.90%	+6.70%	+11.22%	+6.73%	+14.07%	+10.18%
Russell 2000 Index	+14.58%	+14.58%	+2.05%	+12.92%	+7.05%	+15.36%	+8.01%

Inception date: April 30, 1999. 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.



Source: Federal Reserve Economic Data (FRED) – Federal Reserve Bank of St. Louis

The chart above shows getting back to "normal" will not be easy, as doing so too quickly brought on the worst fourth quarter in 10 years. Whereas, the Fed's pivot produced the best first quarter in 10 years. What are investors to make of such volatile market behavior? Jamie Dimon, Chairman and CEO of JPMorgan Chase, wrote in his 2018 annual letter to shareholders, "What we have been experiencing is now the *new normal of liquidity*—and that we should be prepared for it to be even worse in truly difficult times." It is a powerful reminder of just how important central banks have become in terms of the valuation of financial assets in today's investment environment. With nearly $10 trillion of debt yielding negative interest rates, markets still have a long way to go to get to normal. The positive side of this increased volatility is that it creates opportunities for active managers to add value.

Small Cap Core

Contributors and Detractors

The biggest contributors to performance were NeoGenomics Inc. (NEO +62.25%) and Fair Isaac Corp. (FICO +45.39%). NEO offers one of the broadest and most comprehensive menus for cancer testing. By acquiring competitor Clarient, it has become a one-stop shop for high-complexity oncology tests, offering customers a comprehensive, low-cost, high-quality service menu spanning every major category within precision oncology testing. NEO continues to track our positive thesis that as they integrate the Clarient acquisition, drive cost and revenue synergies, and grow companion diagnostics and liquid biopsies, that will drive return on investment (ROI) and growth significantly higher.

FICO's motto is that it transforms business by "making every decision count." FICO's decision management solutions combine trusted advice, world-class analytics, and innovative applications to give organizations the power to automate, improve, and connect decisions across their business. FICO's transition to a cloud-based recurring revenue model as well as pricing power is driving higher expectations for cash flow growth.

Small Cap Core
FIRST QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Fair Isaac Corp. (FICO)	+110	+45.39%
NeoGenomics Inc. (NEO)	+82	+62.25%
Proofpoint Inc. (PFPT)	+48	+44.58%
EastGroup Properties Inc. (EGP)	+46	+22.49%
Spark Therapeutics Inc. (ONCE)	+43	+190.55%
Bottom Detractors		
EnerSys (ENS)	-16	-15.86%
Centennial Resource Development Inc. (CDEV)	-15	-20.34%
Columbia Banking System Inc. (COLB)	-7	-8.89%
RBC Bearings Inc. (ROLL)	-4	-3.53%
U.S. Ecology Inc. (ECOL)	-3	-5.22%

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.

The biggest detractors were EnerSys (ENS -15.86%) and Centennial Resource Development Inc. (CDEV -20.34%). ENS manufactures electrical equipment and offers products that range from powering forklifts to backing up the electrical grid. Their recent acquisition of Alpha Group positions them to profitably grow from the upcoming technology transition to 5G. Short-term earnings were negatively impacted by acquisition-related costs, and the profitable growth associated with 5G is not likely to meaningfully contribute for several quarters. Investors expecting a quicker payoff sold the shares; however, we believe upside optionality is significantly undervalued at the current price.

CDEV is a low-cost producer of oil and gas in the Delaware basin. The decline in oil prices in the fourth quarter from $75 to $45 per barrel negatively impacted cash flows, and the market was disappointed CDEV decided to cut back production while continuing its capital spending plans. Management cut back production because they would rather sell oil at higher prices, and they continued to invest in efficiency-based capital spending to maintain a low-cost competitive advantage. We suspect selling more oil at higher prices while maintaining its low-cost competitive advantage remains a good long-term strategy for value creation.

Portfolio Activity

Portfolio turnover has typically been low. We engaged in three sells and three buys. We sold Spark Therapeutics Inc. (ONCE +190%), which is being acquired by Roche Holding AG (RHHBY). We sold two additional biotech companies—Sage Therapeutics Inc. (SAGE) and Neurocrine Biosciences Inc. (NBIX)—that reached our fair-value target and outgrew the strategy's smaller-cap mandate.

We took advantage of the market volatility to initiate positions in Tabula Rasa HealthCare Inc. (TRHC), U.S. Ecology Inc. (ECOL), and RBC Bearings Inc. (ROLL). THRC is disrupting the field of medical safety. They created a medication safety platform that provides analytics for patients taking multiple drugs and data on drug-on-drug interactions, which is vastly

superior to current options that only compare one drug to another. In addition, TRHC provides a medication risk score (1-50) that highlights higher-risk patients so the pharmacists and doctors can monitor them. This next generation technology has helped reduce hospital visits and deaths associated with dangerous prescription drug combinations.

U.S. Ecology is a leading North American provider of environmental services to commercial and government entities. We believe ECOL will leverage its hard-to-replicate infrastructure and other intangible assets to grow and skillfully acquire high-return businesses with a high recurring revenue component (80%). Further, we think organic and acquired growth will exceed current 8% expectations, and ROI will scale higher than what is currently implied by our purchase price.

RBC Bearings designs and manufactures highly engineered plain, roller, and ball bearings serving aerospace and defense markets and other diversified industrial markets. We believe CEO Michael Hartnett will skillfully acquire as well as gain content share in next-generation commercial aircraft, driving ROI's and growth higher than implied by our purchase price.

Outlook

In our previous letter, we identified the two biggest known risks to the downside: 1) The Fed goes too far with monetary tightening, and 2) President Trump goes too far with tariffs and trade wars. While we acknowledged the possibility, we did not believe they were probable. We suggested that we could see significant upside if Mr. Powell and Mr. Trump act in ways that serve their own best interests. With hindsight, it is clear that the biggest risk (the Fed goes too far) is off the table. Additionally, the risk of an all-out trade war seems lower as the tone of trade negotiations with China has been positive. We believe these are reasons to remain bullish.

However, the coast is not yet clear. Recently, the yield curve inverted, which, as shown below, historically is a warning to investors that economic growth is slowing and recession risk is in increasing.

Date of inversion prior to recession	Time to recession
April 11, 1968	19 months
March 9, 1973	7 months
August 18, 1978	16 months
September 12, 1980	9 months
December 13, 1988	18 months
February 2, 2000	12 months
June 8, 2006	17 months
Average	**14 months**

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. *From January 1962 to May 1976, short-term bond is U.S. 1-year note, and from June 1976 onwards the short-term bond is the 2-year note due to lack of data availability. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession and the onset of recession.
Guide to the Markets – U.S. Data are as of March 31, 2019.

Source: J.P.Morgan Asset Management

Small Cap Core

We are not convinced a recession is imminent. While being mindful of Sir John Templeton's warning that "the four most dangerous words in investing are 'This time is different,' " we believe this time *really* is different. What is different is that, globally, central banks have never tried to unwind 10 years of quantitative easing. Europe's slow growth and negative bond yields are acting like a force of gravity, potentially distorting U.S. bond yields and possibly the yield curve. We are not dismissive of the inverted yield curve's message, but we are cognizant that price discovery is not as robust in capital markets today as it once was due to the interference of central bankers. We are still in uncharted waters as central banks try to normalize.

We will get a lot more information as it relates to the strength of the economy from companies as they report their first-quarter earnings in the coming weeks. Our belief is that tax and regulatory reform has stimulated U.S. growth. While earnings comparisons will be difficult, due to the boost last year from lower tax rates, the underlying growth and outlook reported by companies should remain strong enough to support modestly higher stock prices.

We think the most likely outlook, based on what we know today, is higher volatility and lower (but positive) returns. As mentioned above, such an environment creates opportunities for active managers to add value. Consider that over the last 12 months, at one point, the market was up +18%, and at another point, it was down -10%; however, the return from the Russell 2000 was only up +2%, yet the Small Cap portfolio delivered +7%. Elevated volatility and dispersion helps active managers like us add value for clients in two ways. We can sell companies we no longer want to own for the long term into upward volatility, and we can buy companies we want to own for the long term into downward volatility. By contrast, a passive investor just experienced high volatility but only a miniscule return.

If we are wrong on our assessment of the inverted yield curve, and it is truly signaling economic trouble ahead, we are comforted by the fact that the higher-quality bias to the Portfolio could potentially have a positive impact on performance since the Portfolio has outperformed in down markets 85% of the time.

Thank you for your commitment to the Portfolio. Should you have any questions regarding your investment, please do not hesitate to reach out to us.

TOP TEN HOLDINGS AS OF 3/31/19

Company	% of Assets
Bright Horizons Family Solutions Inc. (BFAM)	2.91%
American Financial Group Inc. (AFG)	2.78%
West Pharmaceutical Services Inc. (WST)	2.64%
Pool Corp. (POOL)	2.55%
Fair Isaac Corp. (FICO)	2.51%
PTC Inc. (PTC)	2.33%
EastGroup Properties Inc. (EGP)	2.21%
Argo Group International Holdings Ltd. (ARGO)	2.09%
Jack Henry & Associates Inc. (JKHY)	2.09%
TriCo Bancshares (TCBK)	2.05%

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.

Small Cap Core

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 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest U.S. equity securities in the Russell 3000 Index, based on a combination of market capitalization and current index membership. The Russell 2000 Index represents approximately 10% of the total market capitalization of the Russell 3000 Index.