Special Situations

Portfolio Update: Third Quarter 2019

The Special Situations strategy (the "Portfolio") decreased -3.71% gross of fees (-3.98% net of fees) during the third quarter of 2019, underperforming both the -2.40% and +1.70% returns of the Russell 2000 and S&P 500 Indexes, respectively. Year to date, the Portfolio increased +25.73% gross of fees (+24.72% net of fees), outperforming the +14.18% return of the Russell 2000 and +20.55% return of the S&P 500.

	3 Months	YTD	1 Year	3 Years	5 Years	Since Inception (Annualized)
Special Situations Strategy	-3.98%	+24.72%	-4.13%	+4.17%	+6.72%	+11.15%
Russell 2000 Index	-2.40%	+14.18%	-8.89%	+8.23%	+8.19%	+7.79%
S&P 500 Index	+1.70%	+20.55%	+4.25%	+13.39%	+10.84%	+8.83%

Inception date: January 1, 2010. 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 moderately disappointed with the Portfolio's relative underperformance in the third quarter as we partially gave back some of its year-to-date performance, although the Portfolio's performance is still ahead of both benchmarks for the year. We remain quite pleased with the year-to-date absolute return in which 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. The Portfolio's underperformance in the third quarter was due in part by several factor bets that have gone against us. Relative to the benchmarks, the Portfolio had a greater degree of economically sensitive, tariff-exposed, and highly levered companies, all of which acted as a headwind to performance. As will be discussed in a few moments, some company-specific news also hurt performance.

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. According to Yardeni Research, current consensus is for 11% earnings growth in 2020, which seems far too optimistic versus a deteriorating economic environment that pressures top-line growth and margins. 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. Equities have significantly rebounded this year from the big fourth-quarter selloff 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 grow, particularly as the trade war with China deepens and extends in duration. 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 tariff-driven cost increases) and weakening economies outside the U.S. As always, macro market predictions are very difficult to make with any hopes of being consistently accurate. We remain focused on bottom-up stock selection within a concentrated, yet diversified portfolio of companies with asymmetric risk/reward profiles.

Contributors and Detractors

Our largest contributor was Plantronics, Inc., a communications hardware manufacturer largely for enterprises. On August 6, the company reported disappointing results and issued disappointing guidance due to a host of macroeconomic and company-specific issues. However, we were confident that many of the drivers of the weakness would prove transitory, especially with its retooled products destined for Microsoft's "Microsoft Teams" use hitting the market over the next six months. We took advantage of the post-earnings sell-off to take our position size from one of the smallest to one of the largest in the Portfolio. Shares bounced back nicely through quarter-end.

Our second-largest contributor was Fidelity National Financial, Inc., a title insurer. The company benefited from signs of rebounding volumes as declining mortgage interest rates typically spur greater refinance activity. Further, in its second-quarter results, adjusted title operating margins reached a 16-year high due to headcount cuts it made when volumes were lower. Our third-largest contributor was Skyline Champion Corp., a company we have held since January 2018 when Skyline and Champion announced they would combine to form the second-largest manufactured home company in the U.S. Its first-quarter results in August showed healthy market share gains and gross margins that increased considerably from a year ago to much better-than-expected levels. Skyline's multi-year outlook continues to be very favorable, owing to the widened affordability gap between its manufactured and site-built homes and positive regulatory and lending developments in its industry.

Special Situations
THIRD QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Plantronics Inc.	+54	-5.51%
Fidelity National Financial Inc.	+46	+11.03%
Skyline Champion Corp.	+45	+11.83%
Prestige Consumer Healthcare Inc.	+38	+9.36%
Verra Mobility Corp. Class A	+33	+10.53%
Bottom Detractors		
Resideo Technologies Inc.	-142	-35.95%
L Brands Inc.	-104	-34.42%
Cision Ltd.	-85	-34.01%
Gardner Denver Holdings Inc.	-76	-18.13%
iRobot Corp.	-61	-21.63%

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.

Conversely, our biggest detractor was Resideo Technologies, Inc., a manufacturer and distributor of residential security and comfort products, such as thermostats. This recent spin-off from Honeywell International Inc. has struggled out of the gate with a higher-than-expected inherited cost base and material growth investment spending that has yet to pay dividends, compounded by its moderately high debt position. Our second-largest detractor was L Brands, owner of Victoria's Secret (VS) and Bath & Body Works (BB&W). The retailer reported incremental sales weakness at VS with weak margins, a sign that it is having trouble selling its wares at full price amid stepped-up competition. Further, B&BW's previously strong sales momentum cooled in the quarter. Our third-largest detractor was Cision Ltd., a provider of software and services that enable organizations to distribute, target, and track press releases. In its second-quarter results release, management guided third-quarter revenue and profitability below consensus expectations and warned that a number of the large new business deals they expected to close in the first half of the year are progressing through the pipeline more slowly than anticipated. They are also taking a diminished view on Asia Pacific performance given ongoing trade tensions with China.

Portfolio Activity

In contrast to the very active first half of the year, the third quarter featured much lower portfolio turnover. We did close out of five previously held positions in the quarter that brought cash levels to approximately 20% from 10%. However, other than PGT Innovations, Inc., which was bought and sold within the quarter for a small gain, there were no new purchases in the quarter. We evaluated many "new ideas" for consideration, but we were challenged to find opportunities with sufficiently attractive asymmetric risk/reward profiles. As a reminder, it's within the portfolio mandate to hold elevated levels of cash as an output of our disciplined investment process. That said, we have a deep pipeline of "ready to go" buy ideas at predetermined buy points, which could come to fruition either through a modest market pullback or somewhat disappointing (but not thesis-changing) third-quarter company results in October and November.

TOP FIVE HOLDINGS AS OF 9/30/19

Company	% of Assets
PayPal Holdings Inc.	5.85%
Masco Corp.	5.34%
Plantronics Inc.	5.30%
Fidelity National Financial Inc.	4.73%
Royal Caribbean Cruises Ltd.	4.57%

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.

The five sell-offs were Resideo Technologies, Cision, L Brands, Inc., Signature Bank, and iRobot Corp. We decided to sell Resideo shortly after its disappointing second-quarter results given ongoing execution risks post-spin and concerns around its above-average cyclicality and financial leverage. With Cision, we lost all remaining confidence that the management team could execute on its vision to push upmarket with its next-generation C3 platform, so we sold out of our position after we allowed the stock to recover somewhat from its dramatic earnings sell-off in August. We sold L Brands immediately after its second-quarter results, which showed continued deterioration in its Victoria's Secret business. At the same time, it appeared increasingly unlikely that the company would unlock significant shareholder value via separation of its thriving Bath & Body Works business over a reasonable time horizon. Signature Bank was sold because we gave the stock sufficient time to re-rate higher following the playing out of its taxi medallion issue a few quarters prior, but the interest rate environment did not cooperate. Finally, iRobot was sold immediately following its second-quarter earnings release that made it clear the extent to which it would suffer from tariffs going to 25% from 10% for its China-manufactured robotic vacuums, as well as increasing competitive activity at the low end of its product set. Our longer-term excitement around the pending launch of its robotic lawn mowers (named Terra) won't be enough to quell near-term headwinds, especially since the new product rollout will be slow and methodical.

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 opportunistically owning companies with asymmetric risk/reward profiles. If we see there is a dearth of opportunities, we have the flexibility to hold some cash until we uncover them, as was the case for much of the third quarter.

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

James Krapfel
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 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. 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.

Special Situations

RMB Asset Management

Special Situations 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 are 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 Special Situations composite has been examined for the period of April 1, 2005 through December 31, 2015. The verification report and performance examination are available upon request. RMB AM maintains a complete list and description of composites, which are also available upon request.

Description | The Special Situations Strategy reflects the performance of fully discretionary equity accounts and is designed to capitalize on stock market inefficiencies in addition to conventional buy-and-hold strategies. "Special Situations" are defined as those that have extraordinarily favorable risk/reward characteristics and, for comparison purposes, are measured against the Russell 2000 and S&P 500 indices. The Special Situations Strategy Composite was created on January 1, 2010 and includes all accounts that are managed in accordance with the Special Situations investment strategy. The strategy evolved from a Small-Cap Investment Strategy which began January 1, 2008 and became the Special Situations Strategy on January 1, 2010. 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 (%)	Russell 2000 (%)	S&P 500 (%)	Composite 3-YR ST DEV (%)	Russel 2000 3-YR ST DEV (%)	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets	Composite Dispersion (%)
2018	4,291.7	43.3	143	-24.29	-25.14	-11.01	-4.38	16.44	15.79	10.80	1.45	0.61
2017	3,610.6	90.0	214	18.66	17.33	14.65	21.83	13.46	13.91	9.92	1.45	1.01
2016	3,047.5	76.5	206	15.44	14.07	21.31	11.96	15.84	15.76	10.59	0.15	0.87
2015	3,706.0	56.4	192	8.87	7.65	-4.41	1.38	13.74	13.96	10.47	0.17	0.62
2014	3,312.9	76.5	237	-4.95	-6.00	4.89	13.69	14.09	13.12	8.97	0.12	0.96
2013	3,248.5	89.8	259	21.77	20.40	38.82	32.39	15.74	16.45	11.94	0.20	0.81
2012	2,585.9	42.2	141	20.95	19.61	16.35	16.00	19.45	20.20	15.09	0.19	1.17
2011	2,218.0	27.5	80	6.05	5.60	-4.18	2.11	N/A	N/A	N/A	0.00	N/A
2010	1,881.9	0.2	2	47.16	45.71	26.86	15.06	N/A	N/A	N/A	0.00	N/A

**The 3-year annualized standard deviation is not presented for 2011 because 3-year monthly composite and benchmark returns are not available.*
***Composite dispersion is not presented for years where there are 5 or fewer portfolios in the composite for the full year.*

Fees | *Effective January 1, 2011, RMB' Capital's asset management fee schedule for this Composite is as follows: 1.25% on the first $250,000 in assets: 1.125% on next $750,000; 1.00% on next $2.0 million; 0.9% on next $2.0 million; 0.8% on next $5.0 million; 0.75% on next $15 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 72% 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 Special Situations Strategy.*

Comparison with Market Indices | *RMB compares its Composite returns to a variety of market indices such as the Russell 2000 and the S&P 500. 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. An investment cannot be made directly in an index. The returns of the indices 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.*