Core Equity

Portfolio Update: First Quarter 2019

The Core Equity Portfolio (the "Portfolio") increased +18.83% gross of fees (+18.68% net of fees) in the first quarter of 2019, outperforming the +14.04% return for the Russell 3000 Index for the same period.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Core Equity Strategy	18.68%	18.68%	11.29%	16.81%	10.41%	14.43%	7.89%
Russell 3000 Index	14.04%	14.04%	8.77%	13.49%	10.36%	16.00%	8.80%
S&P 500 Index	13.65%	13.65%	9.50%	13.51%	10.91%	15.92%	8.70%

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 performance, and there is a risk of loss of all or part of your investment.

We were pleased with both the Portfolio's absolute and relative outperformance in the first quarter, as we were able to stay nicely ahead of the benchmark in a market environment that recovered substantially from the fourth quarter's large selloff. From a traditional attribution perspective, the Portfolio's outperformance was largely driven by stock selection, with a more modest positive contribution from sector allocation. Stock selection in the Health Care sector was a noticeable standout with the Financials, Industrials and Technology sectors also positively contributing. Energy was the lone negative detractor of note, albeit relatively small. It is also worth noting that the Portfolio experienced a style tailwind as growth outperformed the more traditional value style, a reversal from the fourth quarter. While it was a very strong quarter for our relative performance, three months does not make a year and we will continue to work hard to compound shareholder capital over the very long run. We will discuss our individual holdings impact on performance in a bit.

The first quarter market environment was a drastic reversal from what we experienced in the fourth quarter as the market rebounded dramatically. Continuing the storyline from the second half of 2018, domestic headlines continued to be dominated by the trade war between the U.S. and China with optimism around the likelihood of an eventual deal increasing dramatically. This increased probability of an agreement between the world's two largest economies comes at a time that economic data has shown more signs of slowing global growth. While the U.S. remains one of the strongest and most resilient economies in the world, there have been recent domestic data points that the U.S. is also starting to slow from a very strong 2018 as well. This slowing growth is reflected in interest rates that continued to fall, with the 10-year Treasury yield falling from 2.69% to 2.41% in the quarter and down from 3.05% two quarters ago. For a brief period in late March, the yield curve became inverted with the 2-year yield greater than the 10-year. This flat to inverted curve implies that the bond market views the probability of an economic recession over the next one to two years as being fairly high. A change in Fed policy has been impactful in the decline in rates as well. The Fed has done a complete reversal in its messaging to the markets over the past six months from three 25 basis point rate hikes in 2019 to an increased likelihood actual rate cuts. This comes at a time where near term U.S. economic indicators have clearly slowed in the past few months, but still remain quite healthy by historical standards. The March jobs report released in early April remained fairly healthy, helping allay fears that growth was slowing more significantly. The dichotomy between the direction of the stock market and bond market on the future of the economy is remarkable.

Fourth-quarter earnings reports that were released in the first quarter remained strong overall and helped revert the negative sentiment that had overtaken the market during the fourth quarter, particularly in December. Revenues and earnings continue to surprise positively, although there are concerns under the surface about the sustainability of revenue growth as well as profit margins, which are at or near historical peak levels. We believe first quarter earnings, which are about to be reported as we write this letter, could be somewhat of a wakeup call as year-over-year revenue and earnings growth has decelerated dramatically even when adjusting for end of the benefit lower corporate tax rates on earnings growth. Current consensus is for only 4% growth in operating earnings for the S&P 500 in calendar 2019. Given high levels of uncertainty around global growth, 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 towards demand for their products and services.

Our message about overall equity valuations is much less constructive than we were just three months ago after the quick snapback in the market. While not overly expensive, especially given the lower interest rate backdrop, we are not finding bargains to be abundant. 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 December, which reflects the significant rebound in valuations in just one quarter. In fact, all the market return in the first quarter came from multiple expansion, not increases in earnings estimates. When talking about market valuations we also must be cognizant of the fact that we are, more likely than not, in the late innings (if not extra innings) of a long positive economic cycle. While we do not necessarily see a recession as imminent, the probability has certainly grown. As we have discussed 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 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 high quality individual companies that can grow their earnings for years into the future and earn attractive returns on invested capital. No matter what happens with the current market cycle, we strongly believe the strategy positions us to outperform over the long run without taking undue risk.

Contributors and Detractors

As the accompanying chart shows, the Portfolio did not have any negative returning stocks in the quarter, a remarkable occurrence. The largest contributor was SS&C Technologies (SSNC), a software provider to financial services firms. After a rough fourth quarter for the stock, the shares rebounded on a strong quarterly earnings report where margins surprised to the upside and it raised its guidance for cost synergies from its large acquisition of DST Systems. We continue to like the prospects for SS&C, and it remains one of our larger holdings at quarter end. Middleby (MIDD), a provider of food cooking and processing equipment, was the second largest contributor. The stock reacted well to a strong fourth quarter earnings report that showed an acceleration in organic growth and improving margins. We remain optimistic this could be the start of more consistent earnings growth from Middleby which has experienced a weaker demand environment the last several quarters and has also had some internal execution missteps, compounding its industry issues. The stock remains one of our larger holdings at quarter end.

Core Equity
FIRST QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
SS&C Technologies Inc.	161	+41.4%
Middleby Corp.	118	+26.6%
Danaher Corp.	115	+28.0%
Visa	104	+18.6%
Edwards Lifesciences Corp.	104	+24.9%
Bottom Detractors		
Bookings Holdings Inc.	3	+1.3%
United Rentals Inc.	37	+11.4%
PTC Inc.	39	+11.19%
EOG Resources Inc.	40	+9.38%
Alphabet Inc.	40	+12.63%

Past performance is not indicative of future performance, 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.

On the negative side of the performance ledger, Bookings Holdings (BKNG), a leading on-line travel agent, was the largest detractor even though it had a slightly positive return. The stock traded off after reporting its fourth quarter earnings and forward guidance which is showing a fairly significant slowing in travel bookings in its key European end market. Management is attributing the deceleration in growth to a weaker economic environment for travel within the continent and increased uncertainty around Brexit. While this environment could persist for a few quarters we still like Bookings long term competitive position and the secular growth trend towards on-line travel. We used the weakness in the stock to add modestly to our position and it's now about an average sized holding for the Portfolio. United Rentals (URI), the largest rental fleet owner of construction and industrial equipment was the second largest detractor, albeit with a positive return. The stock modestly underperformed the market as concerns regarding the duration of the construction cycle continue to linger. While we have these same concerns regarding the duration of the non-residential construction cycle, the stock remains quite inexpensive and is implying that current Street estimates may not be achievable. It is our smallest position at quarter end and will be closely monitored to determine its continued holding in the Portfolio.

Portfolio Activity

The Portfolio did not purchase or fully exit any names during the first quarter. While some modest changes to position size were made, the lineup of companies remained the same. For many managers, it would be unheard of to go a full quarter without purchasing a new idea. But for us, however, given our concentrated portfolios, long-term investment horizon, and desire for low turnover in the strategy, it does happen from time to time. While we continually seek new ideas that compete for capital to get into the Portfolio, we also look to own very high-quality, growing businesses that compound value for years – not just months or quarters.

TOP 10 HOLDINGS AS OF 03/31/19

Company	% of Assets
Alphabet Inc.	6.1%
Visa	5.8%
Steris	4.9%
Danaher Corp.	4.7%
SS&C Technologies Inc.	4.7%
Cooper Companies Inc.	4.6%
Middleby Corp.	4.6%
IHS Markit	4.6%
Edwards Lifesciences Corp.	4.6%
Cognizant Technology Solutions Corp.	4.2%

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 performance, and there is a risk of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.

Outlook

From when we last wrote you just three months ago, market conditions have spun a complete 180 degrees. We have gone from hyper volatility with high levels of fear to one of lower volatility and renewed optimism. The reversal of the Fed's messaging of future interest rate hikes to one where they may actually cut rates at some point in the next several quarters is a massive change. The upcoming corporate earnings report season that is about to kick off will once again refocus the market back on individual company fundamentals, which we think are decent for U.S. companies, but we have some areas of concern. Inflationary pressures from a tighter labor market, overseas demand levels, and the shorter-term impact from tariffs and rising energy prices 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. Near-term U.S. economic data points have stayed reasonably positive, although have decelerated from fourth-quarter levels. U.S. employment remains healthy with improving labor participation rates (however, with unemployment so low, increasing scarcity for skilled labor in various industries is a real problem as many job openings are going unfilled). Real wage growth should be positive for consumer spending, although winter weather, delayed tax refunds, and the government shutdown could have skewed short-term spending patterns. Consumers in the lower half of income levels should be healthier than they have been in recent years given rising wages and lower unemployment. These rising wages do present a challenge for corporate margins, which are already operating at peak levels. Business and consumer confidence remain at high levels, and we have seen capital investment increasing after several years of stagnant spending. If the trade war with China comes to some type of resolution, which has become current consensus thinking, the near-to-intermediate U.S. economic outlook may end up being better than what the bond market seems to be implying.

Overall, we have some reservations about the momentum in U.S. corporate earnings growth, which is the biggest long-term driver of stock prices. We all know 2019 earnings growth slows dramatically as the lower corporate tax rate anniversaries, but, as mentioned earlier, there are other sources of risks to revenue growth and margins. Over the past two quarters, market earnings estimates for 2019 have fallen from 10% growth to around 8% to about 4% growth currently. The cycle of Wall Street earnings estimates being too optimistic and having to be ratcheted back is a recurring pattern that the market typically sees through, but this is still a major reduction in growth expectations. With the overall market multiple reflating significantly after contracting in the fourth quarter, it now sits a bit under 17x, almost 2 points higher from a quarter ago. The long-term average for the market is around 16x, but given we may be nearing peak earnings, there may 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 secular growth prospects, strong economic moats, underleveraged balance sheets, and superior management teams. These are companies we believe can compound value for shareholders for years into the future. The opportunities to find high-quality growth companies selling at attractive valuations is not very abundant after the recent run up, but we will continue to use 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.

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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 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. 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.