Core Equity

Portfolio Update: Fourth Quarter 2018

The Core Equity Portfolio (the "Portfolio") decreased -17.57% gross of fees (-17.68% net of fees) in the fourth quarter of 2018, underperforming the -14.30% decline for the Russell 3000 Index for the same period. For 2018, the Portfolio declined -1.92% gross of fees (-2.38% net of fees), ahead of the -5.24% decrease of our passive benchmark, the Russell 3000.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Core Equity Strategy	-17.68%	-2.38%	-2.38%	+10.77%	+6.45%	+11.42%	+6.69%
Russell 3000 Index	-14.30%	-5.24%	-5.24%	+8.97%	+7.91%	+13.18%	+7.98%
S&P 500 Index	-13.52%	-4.38%	-4.38%	+9.26%	+8.49%	+13.12%	+7.91%

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 disappointed with the Portfolio's absolute and relative performance in the fourth quarter, as we gave back a substantial amount of return from our year-to-date high-water mark of approximately 19%. That said, we are pleased that the Portfolio's relative return still finished nicely ahead of its underlying benchmark for the full year, making this the third consecutive calendar year the Portfolio outperformed the Russell 3000. We will continue to adhere closely to our underlying strategy and strive to build on this streak in 2019. From a traditional attribution perspective, the Portfolio's underperformance in the fourth quarter was evenly split between sector and stock selection. Financials and Communication Services were positive contributors, with the Technology, Industrials, Consumer Discretionary and Energy sectors being the largest detractors. The Portfolio also was hurt by the growth style of investing, which underperformed the more traditional value style during the fourth quarter selloff. In addition, unlike the first three quarters of the year, the Portfolio had a few detractors driven by company-specific developments, which hurt relative returns. We will discuss our individual holdings impact on performance in a bit.

To say the fourth-quarter market environment was a drastic change is quite an understatement. Volatility returned in dramatic fashion, and the market gave up its significant gains through the third quarter to finish down for the year. The Russell 3000 Index's -5.24% full-year return was the worst calendar year since 2008. Continuing the storyline from the previous two quarters, the escalating trade war between the U.S. and China dominated domestic headlines. Trying to handicap the outcome of achieving some type of meaningful resolution is difficult, and the self-imposed 90-day "tariff truce" deadline of March 1 is likely to provide some fireworks as optimism and pessimism about a potential deal rock back and forth. This trade war is occurring amidst signs of slowing global growth, particularly outside the U.S., a narrative that has also had a significant negative impact on market psyche. Oil prices fell -38% in the fourth quarter, a remarkable decline both for its magnitude and speed. The 10-year Treasury yield pulled back significantly from 3.05% to 2.69% as concerns about slowing growth and a possible recession on the horizon have flattened the yield curve. Fear of a truly inverted yield curve, which often foretells a recession, is also high. As expected, the Federal Reserve ("the Fed") acted on a fourth 25-basis point rate hike in December, although they have become much more dovish about any future rate increases in 2019.This is a fairly dramatic change from three months ago where expectations were for three increases in 2019. Despite this change, most U.S. economic indicators have remained quite healthy – GDP accelerated throughout the year and job growth remains solid despite unemployment hitting a 49-year low and a shortage of qualified workers becoming a common problem for domestic companies. Of course the stock and bond markets are forward discounting mechanisms that care more about future economic conditions over the next several quarters and not necessarily what we are experiencing at this moment.

Third-quarter earnings reports released in the fourth quarter remained relatively strong, even when excluding the obvious benefit from lower corporate tax rates. Revenues and earnings continue to surprise positively, although there are concerns under the surface surrounding revenue growth sustainability and profit margins, which are at or near historical peak levels. We believe that fourth-quarter earnings, which are soon to be reported as we write this letter, will continue to show good, yet

decelerating growth (current consensus is for 12% growth for the S&P 500). We expect forward outlooks to be on the conservative side, given higher levels of uncertainty around global growth. We will watch closely for any change in management's tone toward demand for their products and services. Tariff and trade issues will be a common question as will the impact of inflationary pressures on margins. Despite the uncertainty around global trade, domestic economic growth has accelerated this year, and it looks like U.S. GDP will end the full year near 3% – the best annual growth since 2005. We believe lower corporate and individual tax rates have clearly helped, but also, reduced government regulation and increased consumer and business confidence have had a positive impact on GDP growth. On the negative side, the U.S. housing market has clearly decelerated as appreciation rates have cooled from unsustainable levels and interest rate hikes may have impacted affordability, although the recent pullback in rates may provide some relief for the upcoming spring selling season. Outside the U.S., the upturn in growth in most major economies around the world has clearly stalled out, killing off hope for a more synchronized global economy. In many ways, the U.S. has been the global star for economic growth. The U.S. dollar has also had a very strong run relative to most developed and emerging market currencies.

Our message about equity valuations is more constructive today than what we've opined on over the last several quarters. We see some better bargains after the recent pullback, although not necessarily screaming cheap opportunities. It may help to explain the underlying dichotomy between prices and earnings estimates that occurred in 2018. Earnings are expected to have grown +21% in 2018, while the underlying benchmark declined -5%. Thus, price/earnings (P/E) multiples contracted over the course of the year as earnings rose and prices declined. Today, the market has a P/E ratio of 15.7x on 2018 earnings and 14.7x on 2019 estimates, which is not expensive by historical standards. That said, the concept of "peak earnings" is clearly a debate these days as more bearish investors may argue that if we roll into a recession, 2019 or 2020 (depending on your timing) will see earnings decline from 2018 or 2019 peak levels. As always, macro market predictions are very difficult to make, and we remain focused on opportunistic, 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.

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Contributors and Detractors

Core Equity FOURTH QUARTER 2018 CONTRIBUTION REPORT *Ranked by Basis Point Contribution*	Basis Point Contribution	Return
Top Contributors		
MarketAxess Holdings Inc. (MKTX)	44	+18.63%
PTC Inc. (PTC)	6	+2.77%
Frontdoor, Inc. (FTDR)	-1	+10.12%
Danaher Corp (DHR)	-18	-5.10%
First Republic Bank (FRC)	-26	-9.29%
Bottom Detractors		
Align Technology	-171	-46.47%
Alliance Data Systems	-167	-36.27%
EOG Resources	-140	-31.51%
Servicemaster	-113	-21.16%
United Rentals	-108	-37.33%

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.

As the accompanying chart shows, the Portfolio didn't have many positive absolute returning stocks on the quarter. The largest contributor was Marketaxess Holdings (MKTX), an electronic trading platform for fixed income securities. The stock rose as trading volumes rebounded significantly, benefiting from the return of volatility in the bond markets. We wrote about Marketaxess in last quarter's letter when trading volumes were sluggish; the long awaited cyclical tailwind came quickly. As the industry leader, we also are attracted to the longer term secular growth story as fixed income trading moves away from voice-based broker dealers trading towards electronic exchanges, similar to what stocks have done over the past couple of decades. When both the cyclical and secular aspects of the Marketaxess's growth line up, as they appear to be doing now, it creates a great environment for the stock to outperform. PTC Inc. (PTC) was the second best contributor in the quarter and we will discuss this new purchase shortly.

On the negative side of the performance ledger, Align Technologies (ALGN), a provider of orthodontic clear aligners was the largest detractor over the quarter, giving back all of its year-to-date gains. By way of a longer term perspective, the Portfolio has held Align since November 2015, when we first purchased the stock in the mid-$$60 range. We trimmed back our position size earlier this year while trying to be mindful of our low cost basis for taxable accounts. The stock traded off after its third quarter reporting which, while modestly beating Street estimates, was not the "beat and raise" report that growth and momentum investors had come to expect over the past several quarters. Align's guidance for the fourth quarter was also disappointing relative to Street estimates. With a full valuation multiple, there was very little "margin of safety" embedded in the stock price for any level of disappointment. While demand for clear aligners remains very healthy, average selling prices (ASP's) for Align's product did decline over the quarter and may last for the next three quarters, which really spooked the market. The reason for the decline was: 1) an internal promotion program to its dentist and orthodontist customer base that backfired, 2) negative foreign exchange impact from the stronger U.S. dollar, and 3) faster growth at higher volume large dental practices (DSO's) which receive higher volume discounts. We have not found any evidence that this decline in ASP's is the result of competition, something that would concern us if it was something that would last. We still have very high confidence in Align's management team and believe the company has a tremendous secular growth opportunity ahead of it as digital dentistry is adopted and clear aligners take market share from traditional "wires and brackets." While it was extraordinarily painful to see our 2018 gains in the stock evaporate so quickly, we still believe Align can potentially be one of those decade-long holdings that can significantly compound wealth. We will also continue to play "devil's advocate" and challenge our investment thesis, an important part of our long term process.

Alliance Data Systems (ADS), a provider of private label credit cards and marketing services was the second largest detractor. The stock came under pressure after a moderately disappointing third quarter report, overall pressure on Financial stocks, and data that showed a large, well respected activist investor had reduced ownership in ADS. On a positive note, ADS management announced its intent to explore strategic alternatives (i.e., most likely a sale) of its Epsilon, and potentially its Loyalty One, marketing services divisions. Both of these units have struggled under ADS's ownership and if they can be sold at a reasonable price, it would allow the company to refocus on its core private label credit business. We see good value in the name and continue to hold our position at quarter-end.

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Portfolio Activity

During the third quarter, the Portfolio purchased one new name, PTC Inc., (PTC, $9.8B market cap) and exited one name, Core Labs (CLB). The sale of Core Labs was predicated to make room for PTC as it was our lowest conviction name and does not have the long-term secular growth opportunity of PTC. The sale proved to be timely, given that oil prices continued to sink over the quarter, post our sale, and CLB continued to fall with it. We also inherited a new individual security this quarter, Frontdoor Inc. (FTDR, $2.2b market cap), following its spin-off from parent company, Servicemaster (SERV).

PTC operates as an engineering software and service company, with a core product line of computer-aided design (CAD) and product lifecycle management (PLM) products complemented by a fast-growing set of solutions for the Industrial Internet of Things (IoT) and augmented reality markets. Its CAD and PLM products enable engineers to create conceptual and detailed product designs, as well as collaborate and communicate about those designs across an entire enterprise. The Industrial IoT products enable companies to connect, operate, analyze, and service smart, connected products and environments to create immersive augmented reality experiences for connected products.

TOP 10 HOLDINGS AS OF 12/31/18

Company	% of Assets
Visa Inc. Class A (V)	5.81%
STERIS Plc (STE)	5.28%
IHS Markit Ltd. (INFO)	4.96%
Cooper Companies, Inc. (COO)	4.84%
Danaher Corporation (DHR)	4.58%
Middleby Corporation (MIDD)	4.55%
Edwards Lifesciences Corporation (EW)	4.50%
Cognizant Technology Solutions Corporation Class A (CTSH)	4.36%
ServiceMaster Global Holdings, Inc. (SERV)	4.32%
Genesee & Wyoming, Inc. Class A (GWR)	4.18%

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.

We believe PTC will exceed market expectations by continuing its early success in revitalizing growth in the core CAD and PLM businesses through better execution by its recently reorganized sales team. Meanwhile, we believe its IoT group can sustain 30-40% growth rates for years to come, gradually becoming a greater portion of PTC's booking mix and causing its overall growth rate to accelerate. Management's successful efforts over past few years to convert existing customers from software maintenance to subscription payment plans has artificially depressed GAAP recorded revenue growth and margins, as revenue recognition is deferred into the future. However, these subscription customers are easier to retain, upsell, and ultimately produce lifetime value 2-2.5 times higher than traditional customers. Beyond the fundamental improvements occurring in the business, this accounting transition to subscription billings will run its course in coming years, causing margins to inflect upward by as much as 20% and revenue growth to naturally accelerate. Recent partnerships established with industry-leading players such as Rockwell, Microsoft, and Ansys offer another important potential upside to market revenue growth expectations. PTC shares pulled back disproportionately amid October's selloff in higher quality software companies, providing an attractive entry point for a starter position with a risk/reward approaching 3-to-1. We believe PTC is a name we can own for years into the future and will consider increasing the position size should the stock pull back further.

Outlook

From when we last wrote you only three months ago, market conditions have spun a complete 180 degrees. We've gone from a "melt-up" market environment with low volatility to one with hyper volatility and plenty of fear. With stocks about 20% off their recent highs, we've quickly gone from a classic "correction" into "bear-market" territory. The upcoming corporate earnings report season that is about to kick off will refocus the market back on individual company fundamentals, which we think remain quite strong for U.S. companies but may also have some areas for concern. Inflationary pressures from a tighter labor market, overseas demand levels, tariff impacts, and other sources of margin pressure are topical. Given how far stocks have fallen, we see management teams adding an extra level of conservatism in their 2019 guidance. From a revenue-growth perspective, near-term U.S. economic data points have stayed fairly positive, which should create a solid domestic demand environment. Employment in the U.S. continues to be healthy, with improving labor participation rates with increasing scarcity for skilled labor in various industries becoming more common. Real wage growth should be positive for consumer spending,

particularly for consumers in the lower half of income levels who haven't seen much benefit the last several years. However, rising wages present a challenge for corporate margins, which are already operating at peak levels. Business and consumer confidence remain at very high levels, and we've seen capital investment increasing after several years of stagnant spending. Additionally, the benefits of tax reform lowering both individual and corporate rates are continuing to filter into the U.S. economy. If the trade war with China doesn't become too impactful, the intermediate U.S. economic outlook still has good momentum heading into 2019. The recent decline in energy prices, while bad for producers, is a nice tailwind to consumer spending.

Overall, we continue to be fairly positive on the momentum in U.S. corporate earnings growth, which is the biggest long-term driver of stock prices. Earnings growth in 2019 will slow dramatically as the lower corporate tax rate anniversaries, but it could still be above long-term average growth if the economic cycle cooperates, i.e., 2-3% GDP growth. Over the past quarter, market earnings estimates for 2019 have fallen from 10% to about 8% growth. Wall Street earnings estimates a year out are often too optimistic and never catch major inflection points, but the market seems to understand this phenomenon. We wouldn't be surprised to see earnings growth get revised lower after fourth-quarter earnings reports to maybe the 6-7% level, which seems reasonable. With the overall market multiple contracting significantly, it now sits slightly under 15x, modestly below its long-term average of 16x, which appears to offer some longer-term value, especially given interest rates have come back down. As always, we don't pretend to have any ability to predict 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 are becoming more abundant after the recent selloff 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

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RMB Capital Management, LLC

Core Equity Composite // Annual Disclosure Presentation

Organization | *RMB Capital Management, LLC ("RMB") is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. RMB was established in 2005. RMB claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RMB has been independently verified for the period April 1, 2005 through December 31, 2015. 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. The Core Equity composite has been examined for the period April 1, 2005 through December 31, 2015. The verification and performance examination reports are available upon request. RMB maintains a complete list and description of composites, which are also available upon request.*

Description | *The Core Equity (formerly named All Cap GARP-growth at a reasonable price) product reflects the performance of fully discretionary fee-paying equity accounts, which have an investment objective of long-term growth using a portfolio of primarily small-, mid-, and large-cap stocks and for comparison purposes is measured against the Russell 3000 and S&P 500 indices. The Core Equity Composite was created on April 1, 2005. An account is included in the Composite on the first day of the first full month following becoming fully invested. 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 3000 (%)	S&P 500 (%)	Composite 3-YR ST DEV (%)	Russel 3000 3-YR ST DEV (%)	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets	Composite Dispersion (%)
2017	3,610.6	356.8	625	23.48	22.88	21.13	21.83	12.41	0.09	9.92	0.04	0.37
2016	3,047.5	307.5	621	13.88	13.31	12.74	11.96	13.51	0.88	10.59	0.04	1.02
2015	3,706.0	298.2	666	-4.60	-5.07	0.48	1.38	12.77	10.56	10.47	0.03	0.54
2014	3,312.9	368.3	748	6.44	5.92	12.56	13.69	10.96	9.29	8.97	0.03	0.44
2013	3,248.5	372.1	734	31.78	31.14	33.55	32.39	13.10	12.53	11.94	0.03	0.73
2012	2,585.9	318.2	784	17.62	17.03	16.42	16.00	15.61	15.73	15.09	0.02	0.49
2011	2,218.0	286.4	774	2.03	1.52	1.03	2.11	18.07	19.35	18.70	0.00	1.06
2010	1,881.9	313.8	783	13.44	12.09	16.93	15.06	21.72	22.59	21.85	0.00	0.70
2009	1,613.9	298.7	776	24.90	23.35	28.34	26.46	19.83	20.34	19.63	0.00	1.50
2008	1,113.6	225.3	787	-33.46	-34.29	-37.31	-37.0	N/A	N/A	N/A	0.00	0.90
2007	1,420.6	279.3	746	7.20	5.86	5.14	5.49	N/A	N/A	N/A	0.00	0.90
2006	1,070.2	275.4	806	7.99	6.66	15.71	15.79	N/A	N/A	N/A	0.00	0.60
2005*	811.9	236.3	677	12.41	11.37	8.51	7.22					

**Results shown for the year 2005 represent partial period performance from April 1, 2005 through December 31, 2005.*

Fees | *Effective January 1, 2011, RMB's management fee schedule 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 investment advisory fees incurred by clients 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 are reduced by the portion of bundled fee that includes trading costs and all fees other than portfolio management. The net returns are reduced by all actual fees and transactions costs incurred. In addition to a management fee, some accounts pay a bundled fee based on the percentage of assets under management. Other than brokerage commissions, this fee covers all charges for trading, custody, and other administrative expenses. 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 | *The account minimum in the Core Equity product is currently $100.0 thousand.*

Comparison with Market Indices | *RMB compares its Composite returns to a variety of market indices such as the Russell 3000 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. The returns of the indices do not include any transaction costs, management fees, or other costs. Benchmark returns presented are not covered by the report of independent verifiers.*

Other | *Past performance is no guarantee of future performance. Historical rates of return may not be indicative of future rates of return. Individual client performance returns may be different that 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.*

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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. 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.