Dividend Growth

Portfolio Update: Fourth Quarter 2018

The Dividend Growth Portfolio (the "Portfolio") decreased -9.76% gross of fees (-9.87% net of fees) in the fourth quarter of 2018, better than the S&P 500 Index which decreased -13.52% for the quarter and in-line with the -9.91% return of the Morningstar US Dividend Growth Index. For the full year 2018 the Portfolio has decreased -2.57% gross of fees (-3.03% net of fees) versus a -4.38% decline for the S&P 500, and a -2.17% decline for the Morningstar Index.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Dividend Growth Strategy	-9.87%	-3.03%	-3.03%	+9.40%	+6.39%	+10.27%	+5.80%
S&P 500 Index	-13.52%	-4.38%	-4.38%	+9.26%	+8.49%	+13.12%	+7.91%
Morningstar US Dividend Growth Index	-9.91%	-2.17%	-2.17%	+11.53%	+9.38%	+13.36%	+8.92%

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 return in the fourth quarter as the market sold off substantially, but encouraged by the relative return. We felt the quality of the companies we own helped performance during a large decline in the market. Business models with strong economic moats, sound balance sheets and well-funded growing dividends rose to the surface during a time of stress for the market. For the full year, we were able to generate slight outperformance versus the S&P 500 although fell a little short of the Morningstar Index. We track the Portfolio versus the two passive benchmarks given both have pluses and minuses for being a single benchmark, as addressed in past letters. From a traditional attribution perspective, the Portfolio's outperformance in the fourth quarter versus the S&P 500 was driven entirely by stock selection with a modest negative contribution from sector allocation. Our stock selection in Financials, Consumer Discretionary, Real Estate and Technology sectors offered the most notable standouts. 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 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, 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 undue risk.

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Contributors and Detractors

In a significantly down quarter for the market, the Portfolio did not have many positive returning stocks. The largest contributor to performance was American Tower (AMT), a Real Estate Investment Trust (REIT) that owns communications infrastructure assets, most notably cellular towers. The stock performed well after a decent third quarter earnings report, but benefited from being an extremely defensive business model in a market environment that rewarded non-cyclical businesses. Given very long term contracts with telecom carriers and steady demand for cellular connectivity from consumers, AMT has very little exposure to the business cycle and produces very consistently, with predictable cash flows. We continue to enjoy the long term slow and steady secular growth opportunity that AMT has and it remains the largest position in the Portfolio at year end. That said, we did trim the position modestly in January to fund purchases of more heavily discounted names, but foresee owning a large position in AMT for an extended time horizon. CME Group (CME), a commodity exchange operator, was the second best contributor. CME's trading volumes had been growing in 2018, but accelerated dramatically in the fourth quarter as volatility increased in nearly all of its underlying asset classes: Interest rates, Equity Indexes, Foreign Exchange, Energy, Agricultural Commodities and Metals. Quite simply, increased volatility is good for business as it creates demand for trading contracts from the principal users of derivatives: hedgers, investors and speculators. We continue to like the long term prospects for CME, although acknowledge that the stock is relatively expensive after rising 29% in 2018. We foresee owning a core position in the name, but could potentially take some money off the table to allocate toward better risk-reward opportunities within the Portfolio.

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FOURTH QUARTER 2018 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
American Tower Corporation (AMT)	54	+9.47
CME Group Inc. Class A (CME)	53	+12.02%
Starbucks Corporation (SBUX)	47	+13.92%
Diageo plc (DEO)	1	+0.09%
Marsh & McLennan Companies, Inc. (MMC)	-9	-3.15%
Bottom Detractors		
Apple Inc. (AAPL)	-137	-29.78%
Lowe's Companies, Inc. (LOW)	-108	-19.14%
Snap-On Incorporated (SNA)	-104	-20.40%
Union Pacific Corporation (UNP)	-79	-14.66%
Watsco, Inc. (WSO)	-68	-21.13%

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, we had a few names whose prices underperformed the market over the quarter, adversely affecting the Portfolio's overall return. Apple (AAPL), after being the Portfolio's second best contributor last quarter was the largest detractor in the fourth quarter and declined further in early January. Apples' fiscal fourth quarter earnings report itself was fine, but forward guidance and change in policy to no longer provide product level unit data spooked the market. This was followed in early January by a cut to its first quarter guidance, largely due to sales decline in China. This has spurred questions about the health of iPhone demand, which makes up roughly two-thirds of sales. While it is clear that the iPhone market has been maturing for some time and we have had some reservations about their ability to continually raise average prices, we still think over the long run Apple's platform/ecosystem is very sticky and has many different ways to be monetized. We are intrigued by the longer term idea of selling "hardware as a service," which could create very sticky recurring revenue from subscription plans. We also are attracted to Apple's existing service revenue growth, pristine balance sheet and free cash flow, which will allow it to return an immense amount of capital in the next few years through buybacks and growing dividends. However, at this time, we have not increased or decreased our position in Apple (which is fairly in-line with the benchmark weighting), but lean toward adding should the stock fall further. Lowe's (LOW) was the second largest detractor of the fourth quarter after being the largest contributor in the third quarter. Both Lowe's and Apple flip flopped their previous quarter's contribution from best to worst. Lowe's pulled back given weaker housing data, creating fear that the repair and remodeling market they sell into could be impacted. The stock had experienced a substantial run up in the third quarter on the news that Marvin Ellison, a highly respected former Home Depot executive would become Lowe's new CEO and lead some aggressive efforts to improve profitability. We think Mr. Ellison's plans are very credible and, with good execution and a reasonably cooperative macro environment over the next few years, could lead to substantial appreciation in the stock. Lowe's will also return a lot of capital to shareholders through its share buyback and growing dividend payments. Lowe's remains a top-weighted position at year-end.

Portfolio Activity

During the third quarter, the Portfolio purchased one new security, Avery Dennison (AVY, $7.5b), and exited its position in Schlumberger (SLB). The swap was an opportunity to upgrade into a name for which we have higher conviction over the longer term, while also recognizing a tax loss on the sale. Avery Dennison is the global leader in the production of pressure-sensitive materials including tickets, tags, labels and other converted products. These materials are sold to label printers and converters that "convert" the materials into labels and other products through embossing, printing, stamping and die-cutting, while others are sold in converted form as tapes and reflective sheeting. Avery also manufactures and sells a variety of other converted products and items not involving pressure-sensitive components, such as fasteners, tickets, tags, radio-frequency identification ("RFID") inlays and tags, and imprinting equipment and related services, which are marketed to retailers, apparel manufacturers and brand owners.
We are attracted to Avery as the relatively young management team has done an excellent job in reinvigorating the business over the past few years, exiting some lower margin business lines and restructuring to improve profitability. This has left it with businesses with significant technology and scale advantages. We believe the transformation process has further room to go, with margins and return on invested capital (ROIC) going higher over time. Avery has become a more innovative company with a new product pipeline that can further distance itself from smaller, more commodity players in the industry. The company maintains a relatively low level of debt on its balance sheet, allowing it flexibility for acquisitions and the ability to return free cash flow to shareholders through share repurchases and a growing dividend (2.3% current yield). The recent pullback in the shares on macro concerns regarding global growth have allowed us to purchase the stock at an attractive valuation of 14x 2019 estimates, one of the lowest forward multiples in the past five years. We believe the stock can compound wealth for shareholders for years to come and could even be an acquisition target at some point.

TOP 10 HOLDINGS AS OF 12/31/18

Company	% of Assets
American Tower Corporation (AMT)	6.74%
Microsoft Corporation (MSFT)	5.55%
CME Group Inc. Class A (CME)	5.37%
Lowe's Companies, Inc. (LOW)	5.18%
Amgen Inc. (AMGN)	5.15%
Union Pacific Corporation (UNP)	5.06%
Becton, Dickinson and Company (BDX)	5.01%
Morgan Stanley (MS)	4.62%
Snap-on Incorporated (SNA)	4.56%
Microchip Technology Incorporated (MCHP)	4.34%

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 loss 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 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 with which to add value. 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 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 M Griesbach

Todd Griesbach
Portfolio Manager

Dividend Growth

RMB Capital Management, LLC

Dividend Growth 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, 2014. 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 Dividend Growth Equity composite has been examined for the period April 1, 2005 through December 31, 2014. 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 Dividend Growth Equity Composite product reflects the performance of fully discretionary dividend growth equity 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, a market proxy. The Dividend Growth Equity Composite was created on April 1, 2005 and includes all accounts that are managed in accordance with the Dividend Growth Equity investment style, except for portfolios with substantial restrictions. 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 (%)	S&P 500 (%)	Composite 3-YR ST DEV (%)	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets	Composite Dispersion (%)
2017	3,610.6	219.2	509	19.12	18.54	21.83	10.10	9.92	9.92	0.44
2016	3,047.5	204.6	516	14.48	13.91	11.96	10.95	10.59	10.59	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	20.98	21.85	0.00	0.70
2009	1,613.9	29.7	189	28.81	27.20	26.46	19.11	19.63	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				

**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 Dividend Growth 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 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. The returns of the index 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 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.*

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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 Morningstar U.S. Dividend Growth Index is a subset of the Morningstar US 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. (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.