Special Situations

Portfolio Update: Fourth Quarter 2018

The Special Situations strategy (the "Portfolio") decreased -23.05% gross of fees (-23.28% net of fees) during the fourth quarter of 2018, trailing both the -20.20% return of the Russell 2000 Index and -13.52% total return of the S&P 500 Index. For the full-year 2018, the Portfolio decreased -24.52% (-25.36% net of fees) versus declines of -11.01% for the Russell 2000 and -4.38% for the S&P 500.

	3 Months	YTD	1 Year	3 Years	5 Years	Since Inception (Annualized)
Special Situations Strategy	**-23.28%**	**-25.36%**	**-25.36%**	**-0.04%**	**+0.22%**	**+5.41%**
Russell 2000 Index	-20.20%	-11.01%	-11.01%	+7.36%	+4.41%	+6.75%
S&P 500 Index	-13.52%	-4.38%	-4.38%	+9.26%	+8.49%	+7.26%

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.

To say the least, we were disappointed with the absolute and relative performance in the quarter and the year. There is no sugarcoating our performance—it was a poor year for the Portfolio. The nature of the strategy will produce a fair amount of quarterly deviation around passive benchmarks with a lot of tracking error, but this year was clearly a large outlier. Nothing has changed in how we are executing the strategy, but we did make some individual mistakes in underwriting our downside risk in a few names. We also had too much ownership in cyclicals, such as industrials, automotive, and housing as well as companies that had a fair amount of debt on their balance sheets. Under-ownership in some of the better performing parts of the market also hurt relative performance. We will discuss individual contributors and detractors in a moment.

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 above-average 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. 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.

Special Situations
FOURTH QUARTER 2018 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
MaxLinear Inc. (MXL)	+7	+0.45%
Extreme Networks Inc. (EXTR)	+6	+7.28%
Accelerate Diagnostics Inc. (AXDX)	+5	+5.40%
Marriott Vacations Worldwide Corp. (VAC)	+4	+4.76%
Lions Gate Entertainment Corp. (LGF.A)	+3	+3.78%
Bottom Detractors		
Skyline Champion Corp. (SKY)	-377	-48.52%
GTT Communications Inc. (GTT)	-236	-45.14%
Delphi Technologies PLC (DLPH)	-181	-53.98%
AxoGen Inc. (AXGN)	-136	-44.66%
Royal Caribbean Cruises Ltd. (RCL)	-129	-24.22%

Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Portfolio. 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.

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. As we write this letter, 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 and less on the macro backdrop, looking for strong dislocations in individual stock prices that create distinct investment opportunities for the Portfolio.

Contributors and Detractors

Given the large decline in the market, the Portfolio had very few positive contributors in the quarter. Our top-five list is made up of names that were not actually owned for very long during the three-month period. The Portfolio's largest basis-points contributor was semiconductor manufacturer MaxLinear Inc. (MXL), which we exited in early November. We had owned MaxLinear on and off during the last three years. Our longer-term thesis on the name had become challenged, and we used the recent upward strength in the stock to sell and move on. Names two through five on the list of contributors were part of a basket trade of stocks that were bought on the second-to-last trading day of the year. We will discuss this trade in a moment.

Positions that detracted from the Portfolio's investment returns were numerous and quite sizeable, as shown in the table. Skyline Champion Corp., a manufactured home builder, was our worst performer. We think the stock has declined more due to an overhang of private equity ownership that needs to sell its stake versus any significant underlying fundamental problems at the company or industry. It has also been lumped in with the housing headwind trade, although manufactured housing is a much different business with various drivers from site-built homes. Skyline is a somewhat-illiquid small cap (although liquidity is improving) that has enhanced the selling pressure. We added to our position size during the quarter, and it remains one of our largest holdings. Networking services company GTT Communications Inc. was the second-worst contributor. The stock declined as the market severely punished companies with a lot of debt. This trend was enhanced by GTT's third-quarter earnings, which were somewhat disappointing. We continue to believe in our longer-term, "skilled acquirer" thesis with GTT and added to our position during the quarter, albeit at prices higher than where the stock finished at year-end.

Portfolio Activity

During the fourth quarter, the Portfolio added three new individual names, exited five names, and purchased a basket trade. We initiated positions in Viper Energy Partners LP (VNOM), Continental Resources Inc. (CLR), and United Technologies Corp. (UTX). The first two names were part of an energy allocation that, to say the least, didn't work well. We aborted Continental mid-quarter but continue to hold Viper, which we believe is spring loaded for any rebound in oil prices. United Technologies, a conglomerate of leading industrial brands, was bought after they announced the company will be broken into three standalone, publicly traded companies. United also closed on a transformative acquisition of aerospace leader Rockwell Collins Inc., which will give it depth and breadth in its aerospace unit and will be one of the three independent companies. Our investment thesis will require patience, but we believe the sum of the pieces is greater than where the stock trades today.

TOP FIVE HOLDINGS AS OF 12/31/18

Company	% of Assets
PayPal Holdings Inc. (PYPL)	5.51%
Kinder Morgan Inc. (KMI)	5.37%
Marvell Technology Group Ltd. (MRVL)	5.03%
Skyline Champion Corp. (SKY)	4.76%
Royal Caribbean Cruises Ltd. (RCL)	4.54%

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.

In the quarter, we exited our positions in D.R. Horton Inc. (DHI), CorePoint Lodging Inc. (CPLG), AxoGen Inc. (AXGN), MaxLinear Inc. (MXL), and, as mentioned earlier, Continental. D.R. Horton, a homebuilder, was sold when it was clear that overall housing fundamentals were deteriorating, and it would be hard for the stock to work in a worsening macro environment. We continue to like DR's move to a more "land-light" business model and could choose to re-enter the name in the future. CorePoint, a hotel REIT we received through the breakup of LaQuinta, was sold as the thesis had played out. AxoGen, a medical technology company focused on nerve treatments, was sold after a damaging "short report" was released, destroying our oversold thesis on the name. MaxLinear, a semiconductor manufacturer, was sold after the stock bounced, and we decided that our longer-term thesis on the name had become stale. We also increased our exposure to another semiconductor company, Marvell Technology Group Ltd. (MRVL).

The other major change to the Portfolio that we did in the last couple trading days of the year was the purchase of a basket of stocks to take advantage of the "January effect" phenomena that we expect will be enhanced in 2019. The January effect refers to the worst performing stocks from the prior year outperforming the market in the first month of the new calendar year. Over time, this has proven to be a fairly reliable way to generate excess returns because the biggest stock "losers" get sold for non-fundamental reasons, namely tax-loss harvesting and not having poor performers appear on year-end account statements. Once the calendar changes over, the artificial selling pressures abate and bargain hunters swoop in.

We believe the opportunity resulting from tax-loss harvesting this year is pronounced because (1) portfolio managers don't want to report realized gains when portfolios are down; (2) most portfolios now have a loss for the year; and (3) through 3Q18, most portfolios likely had some degree of realized gains, necessitating selling losers in 4Q18. Further, we see a tactical opportunity to take advantage of oversold market conditions, and we had the means to do so with approximately 15% of the portfolio having been in cash prior to the trades. We purchased 13 stocks at a roughly 1% position size each, all of which are in the bottom five percentile of Russell 3000 performers in 2018 and are diversified across industries. We intend to close out of all these positions by the end of January, before readily identifiable company-specific events, such as earnings announcements, steer stock prices. As we pen this letter, our January effect basket of securities has significantly outperformed the underlying benchmark. We'll report back to you next quarter on how it panned out after we close out the trade.

Special Situations

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. Even with a generally favorable macro backdrop, we spend most of our time looking for highly opportunistic individual opportunities. A more volatile market can produce more of these on both the buy and sell side of the equation, thus the recent increase in overall volatility could improve opportunities for the Portfolio this year. Our strategy has several types of special situations it gravitates toward, and it remains a good environment to look at corporate spin-offs and transformative mergers, which have remained abundant. We expect more of these to develop this year. Wall Street research breadth continues to shrink, helping create some more opportunities in underfollowed securities; however, deep value and corporate restructuring opportunities have been less abundant as of late. As always, we will stick to a disciplined investment process and look for individual securities in many areas of the market that we feel are temporarily mispriced, offering us good risk-reward opportunities.

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

Special Situations

RMB Capital Management, LLC

Special Situations Strategy // 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 Special Situations Strategy composite has been examined for the period January 1, 2010 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 Special Situations ("SS") strategy reflects the performance of fully discretionary fee-paying 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. The strategy evolved from a Small-Cap Investment Strategy which began January 1, 2008 and became the SS on January 1, 2010. 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 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 (%)
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.*

Fees | *Effective January 1, 2011, RMB's management fee schedule is as follows: 1.50% on assets between $250,000-$499,999; 1.250% on assets between $500,000-$999,999, and 1% on assets of over $1 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 Special Situations product is currently $250.0 thousand.*

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. 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 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.*

Special Situations

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.