# Small Cap Core Equity

## Portfolio Update: Fourth Quarter 2018

During the fourth quarter, the Small Cap Core Equity Composite (the "Portfolio") fell -16.95% (-17.17% net of fees), compared to a -20.20% drop for the Russell 2000 Index. The dramatic sell off coincides with risks identified in last quarter's outlook, which included "relatively high valuations; geopolitical and economic uncertainty around tariffs; Middle East tensions; emerging market meltdown contagion; North Korea's denuclearization breakdown; China's debt levels; rising fed funds rates; quantitative tightening; and the flattening yield curve." On top of that, there is evidence of a slowing global economy. Both Germany and Japan's economies contracted this quarter, and the U.S. yield curve briefly inverted in early December with the 5-year Treasury yield trading below the 2-year yield, which is thought to be a leading indicator of slowing economic growth. Further, the Russell 2000 officially entered bear-market territory on December 17.

Consistent with our thesis that high dispersion favors active management, and in particular, high-quality active management, the Portfolio outperformed the Russell 2000 by over 600 basis points for the year, declining -4.61% (-5.47% net of fees).

| | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (Annualized) |
|---|---|---|---|---|---|---|---|
| Small Cap Core Equity (Gross) | -16.95% | -4.61% | -4.61% | +7.03% | +5.46% | +11.81% | +10.64% |
| Small Cap Core Equity (Net) | -17.17% | -5.46% | -5.46% | +6.00% | +4.44% | +10.71% | +9.54% |
| Russell 2000 Index | -20.20% | -11.01% | -11.01% | +7.36% | +4.41% | +11.97% | +7.37% |

*Inception date: April 30, 1999. 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.*

## Contributors and Detractors

The biggest contributors to performance were Argo Group International Holdings Ltd. (ARGO +7.08%) and Ionis Pharmaceuticals Inc. (IONS +4.81%). ARGO is one of only a few specialty property and casualty (P&C) insurance companies that have survived and thrived over the years. We believe it will continue to exceed relatively low expectations as capital is allocated effectively, organically, and externally [e.g., mergers and acquisitions (M&A) and capital return]. ARGO's investment in the early adoption of artificial intelligence technologies is delivering faster quote responses, which has led to winning more profitable business at a lower cost of acquisition. IONS is the leader in antisense drug development with a broad pipeline of drugs that are applicable to many different disease targets. Antisense technology involves synthesizing a strand of nucleic acid that binds to the messenger RNA to inactivate the defective gene. IONS antisense technology platform and business strategy provides multiple ways to win as owners. First, it has a diverse pipeline, including 25 drugs in development across five main therapeutic areas (Cardio, Severe & Rare Diseases, Metabolic, Cancer, and Inflammation/Other). Second, its combination of orphan drugs and large markets balances the pipeline risk and opportunities. Third, IONS has the ability to focus on drug development and discovery and then form partnerships prior to Phase 3 development and marketing, which minimizes

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**FOURTH QUARTER 2018 CONTRIBUTION REPORT**
*Ranked by Basis Point Contribution*

| | Basis Point Contribution | Return |
|---|---|---|
| **Top Contributors** | | |
| Argo Group International Holdings Ltd. (ARGO) | +12 | +7.08% |
| Ionis Pharmaceuticals Inc. (IONS) | +04 | +4.81% |
| Columbia Banking System Inc. (COLB) | +01 | -5.39% |
| Equity Commonwealth (EQC) | +00 | +1.51% |
| Alexander & Baldwin Inc. (ALEX) | -01 | -13.66% |
| **Bottom Detractors** | | |
| Vail Resorts Inc. (MTN) | -67 | -22.18% |
| Carpenter Technology Corp. (CRS) | -66 | -39.37% |
| Jack Henry & Associates Inc. (JKHY) | -58 | -20.76% |
| American Financial Group Inc. (AFG) | -53 | -16.91% |
| West Pharmaceutical Services Inc. (WST) | -51 | -20.50% |

*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.*

business model risk and generates upfront license fees, milestone payments, and royalties. Finally, IONS provides outsourced research and development (R&D) for major pharma and biotech companies.

Two of the biggest detractors were Vail Resorts Inc. (MTN, -22.18%) and Carpenter Technology Corp. (CRS, -39.37%). Both companies were affected by fears associated with changing macroeconomic conditions. Through its subsidiaries, Vail is the leading global mountain resort operator. Even though Epic season pass sales were strong, there was slight deceleration year over year in two of Vail's smaller markets, which we believe is transitory. We remain bullish on the company as we think it has a very long runway for opportunistic acquisitions in the U.S., Europe, and Japan. CRS, which manufactures, fabricates, and distributes specialty metals worldwide, fell along with many cyclical companies that are feared to perform poorly going into a recession. If we avoid a recession, we believe CRS will recover strongly on a one-year outlook. If we go into a recession, we believe it will perform better than other cyclicals and perform strongly on a two-year outlook.

## Portfolio Activity

Portfolio turnover is typically low. We engaged in more sells than buys as we continue to reduce the number of names in the portfolio and increase the portfolio's concentration in higher-conviction names. We also looked to tax-loss harvest in the fourth quarter. We sold to zero Energen Corp. (EGN), which was taken out by Diamondback Energy Inc. (FANG), but we also sold some lower conviction energy names where we could tax-loss harvest, including Superior Energy Services Inc. (SPN) and Carrizo Oil & Gas Inc. (CRZO). We sold Tenneco Inc. (TEN) as we lost confidence in management's most recent merger and planned spinout after meeting with them. We sold Teladoc Health Inc. (TDOC) after the team lost conviction in the firm's cultural attributes that we seek in the companies we own. Achaogen Inc. (AKAO) was sold after they missed an important clinical trial milestone. We sold Multi-Color Corp. (LABL) as they have continually missed on their synergy and debt reduction targets associated with a "bet-the-firm" acquisition. Finally, we sold NewMarket Corp. (NEU), which has not been able to pass on higher raw material costs to its customers.

We bought Centennial Resource Development Inc. (CDEV), an oil-focused, low-cost operator with a clean balance sheet. With acreage in the low-cost Delaware basins, CDEV's break-even price is lower than peers, which we believe will enable the company to be profitable even in lower-price environments. Led by long-time CEO of EOG Resources Inc., CDEV is well-positioned to achieve its goal of being the best technical operator. We bought Visteon Corp. (VC), which engineers, designs, and manufactures electronics products for original equipment vehicle manufacturers worldwide, because we believe new CEO Sachin Lawande is transforming the business to an all-digital cockpit. He is improving VC's credit worthiness and won $5.4 billion in new business. We believe VC is well-positioned to compete with the Intel company Mobileye, which is the leading supplier of software that enables Advanced Driver Assist Systems (ADAS).

## Outlook

The last time we reported to investors, we were a little less bullish. We listed a growing number of risks to the market, and the Strategy was up about +15%. Today, many of those risks have been expressed in the current bear market for small caps. While not ready to bet the farm on an all-out bullish call, we lean to the upside of risk from here.

But first, let's hit the risks to the downside. The two biggest known risks are 1) The Fed goes too far with monetary tightening, and 2) President Trump goes too far with tariffs and trade wars. Both risks negatively impact the pricing equation and therefore valuations.

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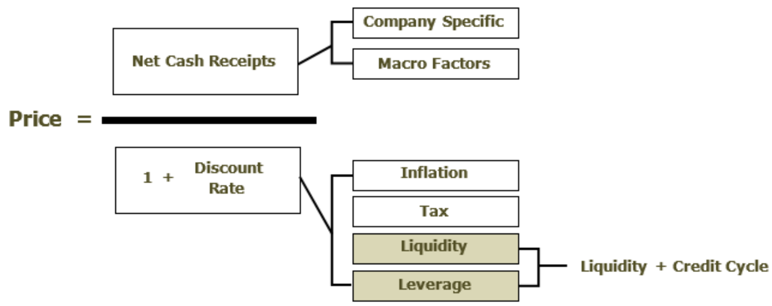
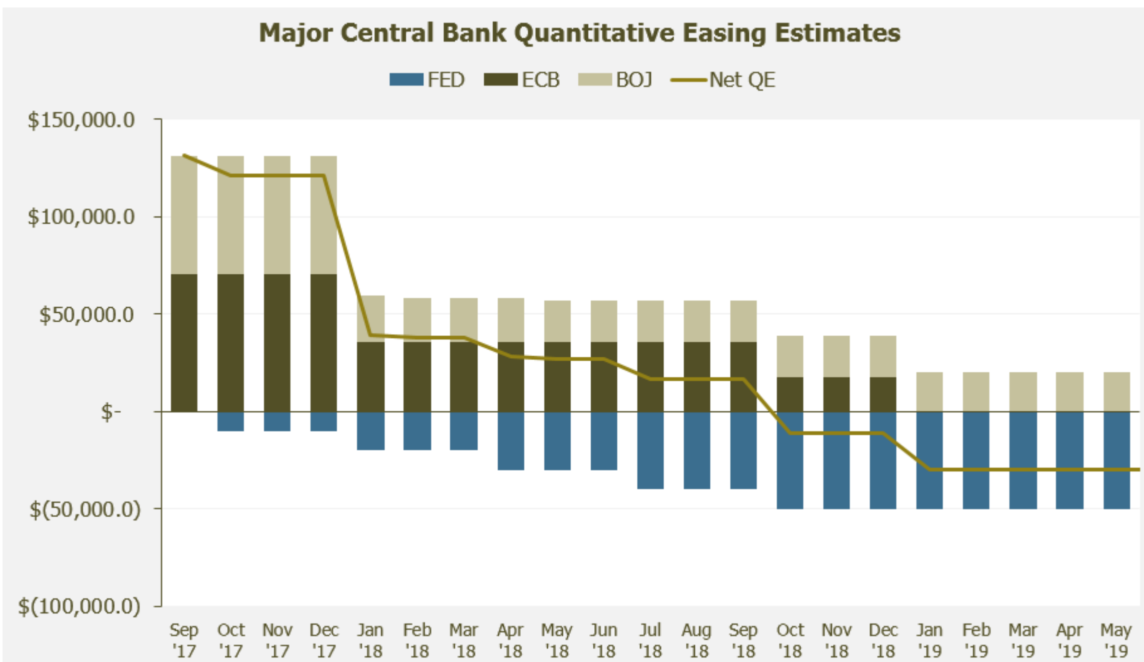



In the equation above, as it relates to the discount rate—where the Federal Reserve is in the driver's seat—the Fed is raising rates while squeezing liquidity through quantitative tightening. We anticipated market volatility in October as our liquidity monitor showed that markets would shift from positive-to-neutral liquidity conditions during the month.




Source: RMB Asset Management Research Core. Data as of December 31, 2018.

The markets are telling the Fed they are tightening too quickly. If they do not slow down, we believe the risks to the downside are pretty significant but would likely be short lived. Today's market may reflect the 1987 bear market, where liquidity rather than the economy drove a rapid downward adjustment to stock prices. The 1987 bear market only lasted 46 days, compared to the average bear market, which lasts about 500 days. The current small-cap bear market is around 100 days.

As it relates to the numerator—where the economy is in the driver's seat—a positive resolution to the China trade war is critical. With the European and Asian economies already weakening, a trade war is the last thing the world economy needs and could put those economies into recession, dragging down the U.S. economy with them.

If both of these risks play out, the downside is significant, and the bear market has probably already started for large caps as well.

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While possible, we do not believe these risks are probable. Instead, we believe self-interest may prevail. A more likely scenario is that the recent weakness in global markets is signaling to the Fed and President Trump that the current policies are dangerous and need to be modified. We think Jerome Powell is smart and may adapt to a more dovish wait-and-see, take-it-slow stance, perhaps even pause policy approach vs. the current pace of rapidly unwinding nine years of quantitative easing on autopilot and possibly overshooting on rates.

President Trump is more of a wildcard, but at the end of the day, we think he knows the harm a trade war would bring, which includes an increased risk of recession and a longer/deeper bear market, where the blame would fall on him—particularly if the Fed accommodates markets.

Small caps have fallen over 20% from their peak, so we are more bullish today given valuations, and we see significant upside, especially if Mr. Powell and Mr. Trump act in ways that serve their own best interests. As this drama plays out, we are prepared to actively manage the Portfolio in order to provide great long-term, risk-adjusted returns for our investors.

**TOP TEN HOLDINGS AS OF 12/31/2018**

| Company | % of Assets |
|---|---|
| American Financial Group Inc. (AFG) | 3.10% |
| Bright Horizons Family Solutions Inc. (BFAM) | 2.86% |
| Fair Isaac Corp. (FICO) | 2.82% |
| Vail Resorts Inc. (MTN) | 2.77% |
| Jack Henry & Associates Inc. (JKHY) | 2.60% |
| Pool Corp. (POOL) | 2.50% |
| PTC Inc. (PTC) | 2.49% |
| West Pharmaceutical Services Inc. (WST) | 2.42% |
| Argo Group International Holdings Ltd. (ARGO) | 2.37% |
| Equity Commonwealth (EQC) | 2.22% |

*Holdings are subject to change. Past performance is not indicative of future results, and there is risk of loss of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.*

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## IronBridge Small Cap Core Equity Composite GIPS-Compliant Presentation

Returns Presented: Dec. 31, 2006 to Dec. 31, 2017. Assets & Returns in USD.

| Year | IronBridge Gross Return % | IronBridge Net Return % | Russell 2000® Return % | Number of Portfolios at End of Year | Internal Composite Dispersion | Composite 3-Year Standard Deviation | Benchmark 3-Year Standard Deviation | Total Firm End of Period $ Millions | Total Assets in Composite $ Millions |
|---|---|---|---|---|---|---|---|---|---|
| 2007 | 10.78 | 9.68 | -1.57 | 24 | 0.42 | 13.07 | 13.16 | $4,587.61 | $1,169.63 |
| 2008 | -30.64 | -31.35 | -33.79 | 26 | 0.34 | 18.82 | 19.85 | $3,903.59 | $946.99 |
| 2009 | 25.70 | 24.27 | 27.18 | 20 | 1.06 | 23.71 | 24.84 | $7,415.09 | $1,106.92 |
| 2010 | 24.47 | 23.25 | 26.85 | 19 | 0.23 | 26.19 | 27.69 | $9,151.98 | $1,205.67 |
| 2011 | -2.65 | -3.62 | -4.16 | 17 | 0.17 | 23.42 | 24.99 | $6,080.24 | $1,012.15 |
| 2012 | 14.24 | 13.12 | 16.35 | 14 | 0.23 | 18.67 | 20.20 | $6,022.19 | $1,077.20 |
| 2013 | 34.58 | 33.27 | 38.82 | 8 | 0.22 | 15.56 | 16.45 | $6,201.31 | $868.35 |
| 2014 | 7.46 | 6.39 | 4.89 | 5 | 0.25 | 12.01 | 16.59 | $4,796.43 | $714.83 |
| 2015 | -0.98 | -1.97 | -4.41 | 10 | 0.17 | 12.61 | 13.96 | $3,230.87 | $684.92 |
| 2016 | 15.06 | 13.93 | 21.31 | 7 | 0.16 | 13.20 | 15.76 | $2,833.76 | $723.21 |
| 2017 | 11.70 | 10.59 | 14.65 | 6 | 0.30 | 11.58 | 13.91 | $3,965.40 | $453.90 |

RMB Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. RMB Capital Management, LLC has been independently verified for the periods April 1, 2005 – December 31, 2015. The verification reports are available upon request. 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. Verification does not ensure the accuracy of any specific composite presentation.

Rolling Annualized Performance as of Dec. 31, 2017
Inception Date: Apr. 30, 1999

| | IronBridge Gross Return % | IronBridge Net Return % | Russell 2000® Return % |
|---|---|---|---|
| 3 Years | 8.36 | 7.29 | 9.96 |
| 5 Years | 12.97 | 11.85 | 14.12 |
| 10 Years | 8.30 | 7.21 | 8.71 |
| Since Inception | 11.50 | 10.39 | 8.45 |

RMB Capital Management, LLC is an independent investment management firm that is not affiliated with any parent organization. RMB Capital is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. RMB Capital manages assets for institutional investors and high-net-worth individuals and families in the U.S. and abroad. Effective June 24, 2017 RMB Capital combined with IronBridge Capital Management. Firm AUM prior to that date includes only IronBridge assets. Going forward firm AUM includes the combined assets of RMB Capital and IronBridge Capital. Prior to the combination, IronBridge Capital Management had been independently verified for the periods December 31, 2003 – December 31, 2016

The benchmark is the Russell 2000 Index, which for comparison purposes is fully invested and includes the reinvestment of income. The Russell 2000 is a subset of the Russell 3000 Index, representing about 8% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The composite includes small cap equity portfolios invested in undervalued companies as suggested by RMB Capital's proprietary economic return framework, with relatively small market capitalizations (generally under $2.5 billion at the time of initial purchase) and with both growth and value attributes. The composite excludes portfolios that have client-driven restrictions that hinder the investment strategy. Beginning January 1, 2015, the composite excludes portfolios under $2 million. Prior to that date, the composite excluded portfolios under $5 million.

The inception date of the composite is April 30, 1999, and the composite was created on March 31, 2002.

Portfolios are valued daily on a trade date basis. Accrued dividends were included beginning in 2008. Returns are calculated using the time weighted return method. Gross of fees returns are presented after trading expenses, but before all other fees.

The standard management fee is 1% of assets annually, which is also our highest applicable fee. Net returns are computed by subtracting the highest applicable fee (1% on an annual basis, or 0.083% monthly) on a monthly basis from the gross composite monthly return, and the resulting monthly net figures are compounded to calculate the annual net return. In 2009, one account in the composite paid a fee higher than the usual highest applicable fee, at 1.16%. That fee level is used to compute the 2009 net figure, which is 24.27%.

For the IronBridge composites, RMB Capital uses equal-weighted standard deviation as the dispersion measure.

Beginning January 1, 2015, this composite has no significant cash flow policy. Until December 31, 2014, accounts were removed from the composite when significant cash flows occur, for the month of the flow and the month after. Significant cash flows were defined as 50% or more of the account value. Exceptions were made for flows that take the form of in-kind transfers, when the transfers are balanced according to our own investment model. In those instances, there is no material difference to the portfolio's weights after the flow, and thus no hindrance to the implementation of the investment strategy. This cash flow policy went into effect January 1, 2008. Prior to that date, significant cash flows were defined as 50% of the account value or $15 million.

The composite portfolios calculate foreign withholding taxes using the rate applicable to each portfolio's country of domicile, and returns are net of those taxes.

Derivative use within the composite is minimal and deemed immaterial. A complete list and description of all RMB Capital composites is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Assets and returns are presented in USD. Past performance is not indicative of future results.