

U.S. Alpha

Portfolio Update: Second Quarter 2019

During the second quarter, the U.S. Alpha Equity strategy (the “Strategy”) increased +4.96% gross of fees (+4.89% net of fees), outperforming the Russell 3000 Index’s +4.10% return. For the year, the Strategy increased +17.25% gross of fees (+17.10% net of fees), slightly underperforming the Russell 3000 Index’s +18.71% return. To put the first half of 2019 into perspective—the S&P 500 Index logged its best first half in 22 years¹. From a traditional attribution perspective, excess return was driven by stock selection in the healthcare, materials, industrials, and information technology sectors, while financials and communication services detracted. The goal of the Strategy is long-term growth of capital, and from that perspective, we feel good about the strong absolute return delivered in the first half of the year while also acknowledging we are taking less risk than the Russell 3000 as defined by portfolio beta. That said, long-term growth of capital also requires preservation of capital during inevitable stock market declines. In addition, being prepared in advance (i.e., having a fully vetted “wish list” of high-quality businesses we want to own at the right price) to be opportunistic and exploit higher volatility.

	3 Months	YTD	1 Year	3 Years	Since Inception (Annualized)
U.S. Alpha (Gross)	+4.96%	+17.25%	+11.32%	+16.82%	+13.18%
U.S. Alpha (Net)	+4.89%	+17.10%	+11.18%	+16.30%	+12.52%
Russell 3000 Index	+4.10%	+18.71%	+8.98%	+14.02%	+10.13%

Inception date: December 31, 2014. 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.

A complete reversal of the Federal Reserve’s (“the Fed”) monetary policy from hawkish to dovish at the end of last year, and the increasingly accommodative Fed communication during the first half of this year, have ignited the stock market rally. The ride back up toward record highs has not been met without some volatility, however, particularly during the last three months. The Russell 3000 declined -7% from May 3 to June 3, then rebounded +7% to end the quarter with a gain—you don’t see that very often. Although you don’t often see trade wars happening in real time on Twitter either. President Trump tweeted on May 5 that he was raising existing tariffs to China imports from 10% to 25%, effective May 10. Since then, President Trump’s trade rhetoric has tempered. Meanwhile, the Fed is foreshadowing additional rate cuts in the scenario trade frictions put further stress on the economy, thus fueling the surge in the stock market to all-time highs.

In addition to President Trump and his tweets, the ongoing reallocation of investment funds from active to passive continues to result in higher volatility as well. A recent study by J.P. Morgan highlights a staggering statistic: passive investments such as index funds and exchange-traded funds control roughly 60% of the equity assets, while quantitative funds, those which rely on trend-following models instead of fundamental research from humans (active), now account for 20%. As such, the *minority* of the market share is now active, and we believe there are significant implications not fully understood by passive investors. Moreover, passive fund inflows increased by \$39 billion so far this year, whereas active funds lost \$90 billion in 2019, the bank said². The convenience of pushing a button intraday to buy or sell a broad basket of stocks comes with increased risk (defined by permanent loss of capital) as passive and quantitative funds are now the majority of the stock market. What happens to the stocks in the basket which are both over-owned by passive and have *low liquidity* during an influx of passive and quantitative orders? We believe the answer is increased volatility and the higher likelihood for prices to be divorced from fundamentals during herd behavior moments when emotion rules the day. Without genuine company insight informing a long-term investment horizon, volatility will often translate into permanent loss of capital with emotional buying/selling at the top/bottom. Data shows Main Street investors have consistently mistimed the stock market for behavioral reasons³. From this perspective, now that passive investment compromises the majority of equity assets, risk of passive is increasing *proportionately* with increases in its market share. As illustrated in the aforementioned J.P. Morgan study, the

¹ Saha, Sanghamitra, “S&P 500 Logs Best 1H in 22 Years: Top-Performing Stocks,” *Nasdaq.com*, July 1, 2019.

² McDermid, Brendan, “80% of Stock Market is now on Autopilot,” *Reuters*, May 23, 2019.

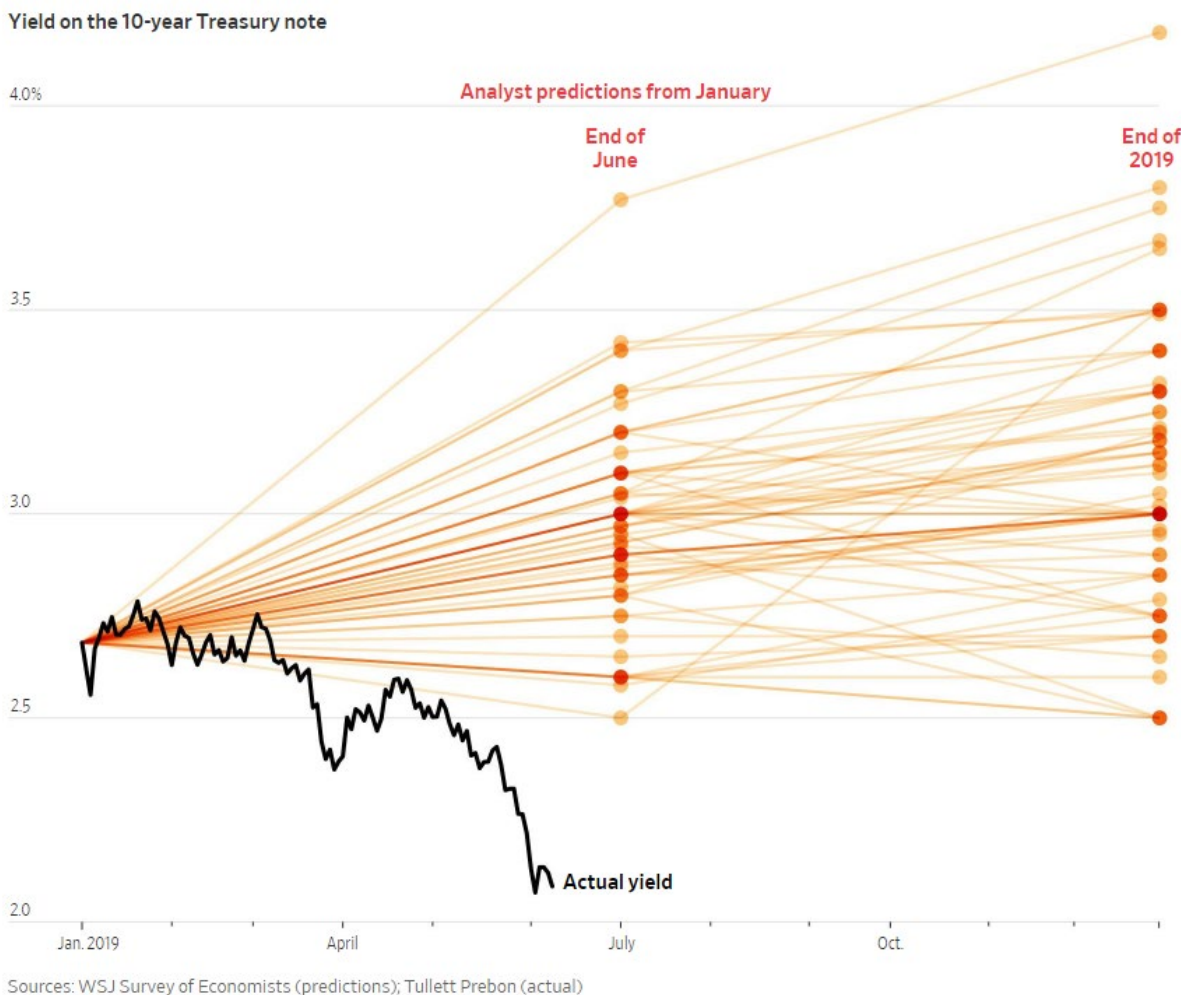
³ Arends, Brett, “Many Retail Investors Panicked and Sold During Last Month’s Market Meltdown (Again),” *MarketWatch*, July 10, 2019.



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consensus is clearly passive over active—but consensus often gets it wrong, and sometimes terribly wrong. A perfect example is the 10-year U.S. Treasury yield.

The chart below shows the path of the 10-year U.S. Treasury yield so far this year compared to 50 respondents to the *Wall Street Journal's* survey of economists. The 10-year U.S. Treasury yield collapsed for a variety of reasons, including low inflation, slower global growth, and a reliance on central banks to boost economic expansion. Also, yields on 10-year Treasury bonds in Germany, Japan, Denmark, and Holland are now *negative*. But none of the experts were even close—the average forecast or the U.S. 10 year for June was 3.39%, and the lowest forecast was a dip to 2.75%.



The reliance on what worked in the past to infer a “cycle playbook” for interest rates (as well as other factor and systematic dimensions) is proving to be a source of humility given the unprecedented level of unconventional central banking. Our Strategy playbook is unwavering (see “Commitment to Our Investors” section below), and we welcome being “non-consensus” as an active equity investor generally and managing a “non-consensus” Strategy specifically—concentrated, unconstrained, low turnover, with an eye toward being opportunistic. Moreover, the primary risk taken in the Strategy is company-specific (i.e., not factor or systematic risk).



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Contributors and Detractors

Ecolab Inc. (ECL, +12.01%), a best-in-class specialty cleaning chemical company with a heavy focus on customer service, was the Strategy's largest contributor. The company reported strong operating margin expansion and maintained a robust outlook for the fiscal year. Although Ecolab has "staple" characteristics, it is truly a science-based company, with a Vitality Index of 30% (sales from products introduced in the prior five years), 1,600 people in the Research & Development (R&D) organization, and 8,200 patents. Moreover, the company has seen that positive change accelerates when economic and environmental goals come together as highlighted in the 2018 letter to shareholders, "... through our unique blend of technology, expertise and on-site service, we helped our customers save 188 billion gallons of water and reduce energy use by 19 trillion BTUs. By using recycled plastics and reusing packaging, we reduced our customers' plastic use by 54 million pounds."

Microsoft Corp. (MSFT, +14.00%), best known for its Windows operating system, was the Strategy's second-biggest contributor and is a productivity software powerhouse that has made the move to the cloud (Azure) and more of a subscription-based revenue model. Under the leadership of CEO Satya Nadella, the culture of the company has been reset. Nadella elaborates in the 2018 letter to shareholders, "Our culture enables us to pursue our mission with a growth mindset. It's a continuous practice of learning, renewal and having the courage to confront our own fixed mindsets. Collectively, we are moving from a group of people who know it all to a group of people who want to learn it all." The high managerial skill of Nadella and renewal of a knowledge-building culture are paying off as the company delivered strong organic growth in the quarter headlined by Azure, which grew 75% year over year, and we believe is well positioned for explosive growth in the future.

Alphabet Inc. (GOOGL, -7.99%)—the world's leading search engine and one of the top Internet destinations online, delivering relevant advertising on its own site and on its network of third-party websites—was the Strategy's biggest detractor. Alphabet reported lower revenue growth than expected, and the explanation in typical Google fashion was obscure. We believe the slowdown is likely the result of a tough comp from ad monetization improvements that benefited 2018 results. Although the growth outlook is modestly lower for 2019, we believe growth prospects remain solid in the long term given the firm's formidable network effect and massive digital advertising total addressable market, which remains at low penetration rates. Also, a margin of safety is provided with a sum-of-the-parts analysis beyond the search platform, including YouTube (we estimate to be worth up to \$150 billion), "other bets," such as Waymo—a leader in autonomous driving cars (we estimate to be worth up to \$75 billion), and a roughly \$100 billion cash position.

Intuitive Surgical Inc. (ISRG, -8.07%), which manufactures the da Vinci robotic system that is used in a wide range of minimally invasive surgical procedures, was the Strategy's second-biggest detractor. The two key milestones for the company include procedure growth (each procedure has its own adoption curve) and system placements (razor/razor blade business model). The company delivered solid procedure growth and system placements and provided a robust outlook for both. However, system revenue came in light of expectations, partially driven by operating lease arrangements as well as trade-in impacts driving down Average Selling Price (ASP). We believe the increase in trade-ins, leases, and usage-based orders

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SECOND QUARTER 2019 CONTRIBUTION REPORT

Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Ecolab Inc. (ECL)	+84	+12.01%
Microsoft Corp. (MSFT)	+79	+14.00%
Visa Inc. (V)	+72	+11.28%
IDEXX Laboratories Inc. (IDXX)	+69	+23.14%
Markel Corp. (MKL)	+50	+9.37%
Bottom Detractors		
Alphabet Inc. (GOOGL)	-39	-7.99%
Intuitive Surgical Inc. (ISRG)	-33	-8.07%
Charles Schwab Corp. (SCHW)	-19	-5.65%
Jack Henry & Associates Inc. (JKHY)	-15	-3.19%
First Republic Bank (FRC)	-13	-2.62%

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 Strategy. Holdings listed might not have been held for the full period. 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.



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actually increases the company's competitive position as it creates a more established and interconnected installed base with lower barriers to access.

Portfolio Activity

There were no new positions or complete sales in the Strategy. We believe low turnover is an outcome of being early with genuine company insights and having a patient temperament. Moreover, low turnover allows for deferred taxable gains to compound in an efficient manner. As we like to remind ourselves, pick right for the long term, and then the best thing to do is usually nothing—which we refer to as action through non-action.

Outlook

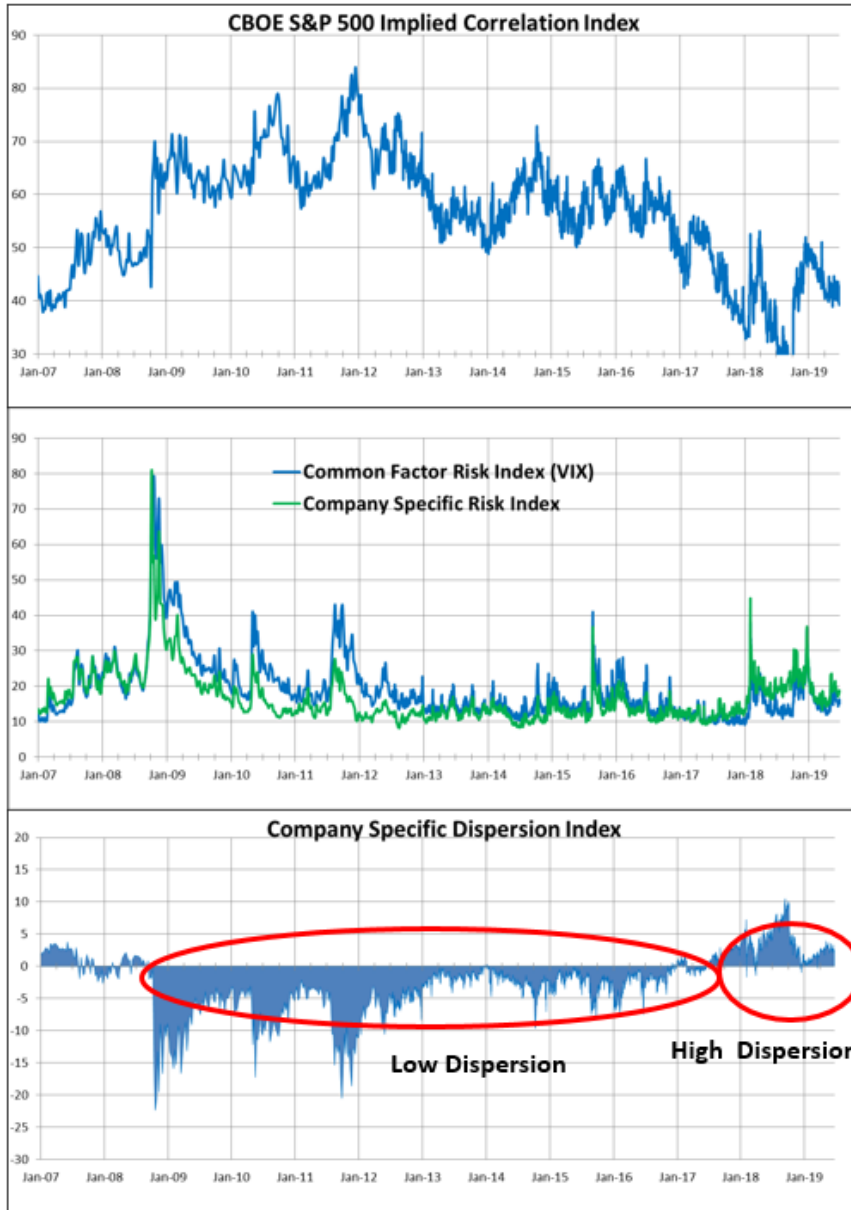
Although corporate performance in the second quarter was respectable, the primary reason for the stock market rise this past quarter was once again the Fed—Powell is signaling an ultra-accommodative stance, and now the Fed would need to cut interest rates by 75 bps by the end of 2019 just to meet market expectations. No doubt, "lower for longer" is priced into the stock market. Warren Buffett recently commented, "I think stocks are ridiculously cheap if you believe ... that 3% on the 30-year bonds makes sense." To be more specific about the importance of interest rates and present-value arithmetic, we estimate that for every 50 basis points increase/decrease in the equity discount rate, the stock market declines/increases roughly +/- 10%. However, with the real, after-tax U.S. equity discount rate at 5% (low by historical standards), a sharp rise in inflation almost assuredly means a sharp rise in the equity discount rate, resulting in lower stock prices.

The future performance of the stock market is now much more dependent on the health of Corporate America and the U.S. economy as opposed to the Fed, which is quickly depleting its accommodative toolkit. But Corporate America continues to demonstrate resilience—the U.S. is officially in its longest expansion, breaking the record of 120 months of economic growth from March 1991 to March 2001, according to the National Bureau of Economic Research. And there is no reason why the U.S. will not remain in "late cycle" status for an extended period of time, beyond any current or future "consensus." Positive signals for future healthy U.S. economic growth include: 3.6% unemployment (the lowest since 1969), lukewarm inflation, high business confidence, increased productivity, share repurchases, deregulation, and slow but steady progress on trade talks between Washington and Beijing. The latter is a key milestone given the high economic linkages between the two countries. We do not believe the bond market rally is signaling a near-term recession in the U.S. as opposed to simply a more dovish stance by all major central banks across the world, most notably the Fed. But given the historically low level of the real, after-tax U.S. equity discount rate and traditional valuation metrics being higher than historical averages, we expect stock market returns to be more modest through the course of the year with likely higher volatility, which we are positioned to exploit.

Although the Fed has reversed to a far more dovish stance on monetary policy, we still expect a continuation of higher volatility as the stock market is on autopilot (80% passive investment and quantitative funds) and uncharted territory approaches with the inevitable pivot from quantitative easing (QE)—characterized by high equity correlations and low dispersion—to quantitative tightening (QT) and higher dispersion of individual stock returns. Higher dispersion is helpful for investors who are able to select undervalued (attractive risk-reward) stocks due to distinct company-specific reasons (i.e., not factor or systematic risk). The following chart shows dispersion is at the 90th percentile relative to the past decade.



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A higher Implied Correlation Index indicates higher common factor risk relative to company-specific risk.

Common factor risk cannot be diversified away. Company-specific risk can be diversified.

While the VIX has recently been trending up, company-specific risk, as measured through option prices, is trending up faster.

Dispersion has been rising since late 2016 and is currently at the 90th percentile over the last 10 years.

Source: Credit Suisse

We welcome higher dispersion and continue to believe the current environment is well suited for our “non-consensus” Strategy. As a byproduct of our high-quality focus, we avoid speculative credit and low-liquidity risk companies. While this proved to be a headwind for high-quality managers during QE, we believe the reverse will be true during QT. We are positioned to exploit increased volatility in the near term with 7.5% cash levels and anticipate our concentrated portfolio of high-quality businesses to continue to generate above-market returns over the long term.



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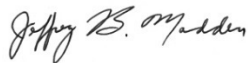
Commitment to Our Investors

It has taken us much time and thoughtful evaluation from lessons learned over 20 years of investing to arrive at the following principles:

- Invest with a long-term owner’s mindset and exploit short-term renters
- Focus on causation—high managerial skill, knowledge-building cultures, and distinct, adaptable capabilities
- Employ an economic return framework to minimize accounting distortions and convert analysis of intangible assets into long-term cash flow forecasts
- Require twice the upside versus downside for all investments
- Eschew the tyranny of benchmarks in favor of a concentrated portfolio of our highest-conviction investments
- Focus on the investment process, not the outcome
- Invest a significant portion of personal capital alongside our clients

We have been and will continue to be unwavering in applying these principles.

Sincerely,



Jeffrey B. Madden
SVP, Portfolio Manager

TOP FIVE HOLDINGS AS OF 6/30/19	
Company	% of Assets
Ecolab Inc. (ECL)	7.23%
Visa Inc. (V)	6.81%
Amazon.com Inc. (AMZN)	6.79%
Microsoft Corp. (MSFT)	6.16%
Johnson & Johnson (JNJ)	5.77%

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.



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U.S. Alpha Composite // Annual Disclosure Presentation

Organization | RMB Capital Management, LLC ("RMB Capital") is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 and established in 2005. The GIPS firm is defined as RMB Asset Management ("RMB AM"), a division of RMB Capital Management, LLC. Previously, the firm was defined as RMB Capital and was redefined on January 1, 2016 to only include the asset management business due to the difference in how its investment strategies and services are offered. RMB AM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RMB AM has been independently verified for the period April 1, 2005 through December 31, 2017. 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.

Description | The U.S. Alpha Strategy (formerly named IronBridge U.S. Alpha Equity Composite) product reflects the performance of fully discretionary fee-paying equity accounts, consists of all portfolios invested in our concentrated, all-cap equity strategy that seeks long-term growth of capital. The strategy invests in the equities of high-quality U.S. companies across the market capitalization spectrum, employing intensive fundamental and qualitative analysis to identify investment opportunities among companies with long-term track records of wealth creation and attractive valuations. Portfolios within this composite typically invest in 20-30 companies. The composite excludes portfolios under \$500 thousand. For comparison purposes is measured against the Russell 3000 index. The inception date of the composite is December 31, 2014. The composite was created on January 21, 2016.

ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

Year End	Composite Assets			Annual Performance Results					
	Total Firm Assets* as of 12/31 (\$M)	USD (\$M)	# of Accounts Managed	Composite Gross-of-Fees (%)	Composite Net-of-Fees (%)	Russell 3000 (%)	Composite 3-YR ST DEV (%)	Russel 3000 3-YR ST DEV (%)	Composite Dispersion (%)
2018	4,291.73	7.21	<5	3.36	3.36	-5.24	10.79	11.18	0.08
2017	3,610.61	6.73	<5	23.75	22.72	21.13	10.76	11.90	N/A
2016	2,833.76	2.69	<5	8.50	7.58	12.73	N/A	N/A	N/A
2015	3,230.87	1.66	<5	7.33	6.43	0.48	N/A	N/A	N/A

*Effective June 24, 2017 RMB Capital combined with IronBridge Capital Management. Firm AUM prior to 2017 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, 2014 – December 31, 2016.

Fees | The standard management fee is 1.00% on the first \$250,000, 1.00% on the next \$750,000, 0.95% on the next \$2 million, 0.90% on the next \$2 million, 0.80% on the next \$5 million, and 0.75% on the next \$15 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. The net returns are reduced by all actual fees and transactions costs incurred. The percent of non-fee paying assets in the composite as of December 31, 2018 was 100%. 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 | There is currently no account minimum in the U.S. Alpha Composite.

Comparison with Market Indices | RMB compares its Composite returns to a variety of market indices. 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. The benchmark for the U.S. Alpha Equity composite is the Russell 3000® Index, which for comparison purposes is fully invested and includes the reinvestment of income. The index consists of the 3000 largest publicly listed U.S. companies, representing about 98% of the U.S. equity market. The index does not reflect investment management fees, brokerage commissions, or other expenses associated with investing in equity securities. You cannot invest directly in an index.

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.



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