Dividend Growth

Portfolio Update: Fourth Quarter 2019

The Dividend Growth Strategy (the "Strategy") rose +11.78% gross of fees (+11.64% net of fees) in the fourth quarter of 2019, ahead of the S&P 500 Index and Morningstar U.S. Dividend Growth Index, which increased +9.07% and +8.21%, respectively. For 2019 the Strategy increased +37.61% gross of fees (+36.94% net of fees) versus +31.49% for the S&P 500 and +30.14% for the Morningstar index.

	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Dividend Growth Strategy	+11.64%	+36.94%	+16.54%	+10.95%	+11.18%	+7.72%
S&P 500 Index	+9.07%	+31.49%	+15.27%	+11.70%	+13.56%	+9.32%
Morningstar U.S. Dividend Growth Index	+8.21%	+30.14%	+16.12%	+12.41%	+14.18%	+10.24%

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 results, and there is a risk of loss of all or part of your investment.

We were pleased by the Strategy's relative return for the fourth quarter and full year compared to its two passive benchmarks. Given the moderately more defensive nature of the strategy, we are extremely proud with the performance in such a strong overall market environment. We'll opine later on the potential for the market in 2020, but (spoiler alert!) it will be nearly impossible to generate these type of absolute returns this year. We'll continue to work hard to generate strong relative returns, but even those will be difficult to replicate with the success the Strategy had versus its underlying benchmarks in 2019. From a traditional attribution perspective, the Strategy's outperformance in the fourth quarter vs. the S&P 500 was all driven by stock selection. Our stocks in the industrials and health care sectors were notable standouts, partially offset by a modest negative contribution from the financial sector.

The fourth-quarter market environment saw a significant decrease in volatility as optimism around a trade truce between the U.S. and China culminated with a preliminary agreement for a "phase one" deal in December. The market also responded positively to better monthly economic data and the ongoing tailwind of an accommodative Fed. Much of the recessionary and "late cycle" fears that were emerging mid-year were dampened down in the fourth quarter. The U.S. has remained one of the strongest and most resilient economies in the world over the past few years and consensus is for stable to potentially accelerating growth in 2020. The manufacturing sector of the U.S. economy, which was hard hit by impact of tariffs, could see some relief in coming quarters, and growth comparisons should be relatively easy. The larger consumer-focused sector of our economy has remained strong, with near full employment and some moderate real wage growth, particularly for the lower income consumer. The 10-year Treasury yield rose 24 basis points from 1.68% to 1.92% in the quarter. The Fed has signaled that is done with its three 25 basis point rate cuts that it made in 2019 and is most likely to leave rates unchanged for the intermediate future, obviously dependent on any material changes in economic data. The impeachment inquiry of the president certainly has dominated the political headlines of late, but the stock market has largely shrugged it off as noise. That said, the highly charged political environment in DC and the potential for major tax and policy changes will remain part of the investment backdrop during this election year.

Third quarter earnings reports released in the fourth quarter saw revenues and earnings continue to surprise positively versus very low expectations, although there was minimal year-over-year earnings growth for the market as a whole. While the fourth quarter has yet to be reported, 2019 is likely to finish with very little earnings growth, likely 1-2% based on current expectations. Our message about overall equity valuations is similar with how we felt at the end of last quarter and has only gotten worse, given the further market run-up. While not outlandishly expensive, we are not finding bargains to be abundant by any means, particularly in our quality growth universe. As mentioned in last quarter's letter, the Strategy is seeking a couple of strong new ideas and we did add one new name during the quarter, but attractively priced entry points in individual names with good fundamentals are hard to find. From a bottoms-up, individual company perspective, the Strategy has more reward-to-risk ratios under one than it has greater than one. This was much different from where we stood at the end of 2018 after the big fourth-quarter selloff, which reflects the significant rebound in prices without any upward revisions in earnings estimates or growth expectations. The market return in 2019 came entirely from multiple expansion. From a longer-term

perspective, even though the risk of a recession in the near-term has likely diminished, we must be cognizant of the fact that we are likely in the late innings of a historically long positive economic cycle. With trade concerns diminishing and an accommodative interest rate environment, it's certainly possible that the macro-economic ballgame could easily continue into extra innings. As always, macro market predictions are very difficult to make, and we remain focused on opportunistic, bottoms-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 undo risk.

Contributors and Detractors

The table to the right shows the Strategy's largest contributors and detractors to performance ranked by basis-point contribution. United Health Group Inc., a leading health care insurance and prescription benefits manager, was the largest contributor to performance in the quarter. The stock rebounded substantially after underperforming in the first three quarters of the year, as the market began to discount a lower probability of "Medicare for All" ever becoming law. As we wrote in last quarter's letter, we thought the probability of this was quite low and used the third quarter weakness to add modestly to our position. United was also buoyed by a strong third quarter earnings report and solid outlook for 2020. We continue to like United's long-term prospects, and have the position sized toward the top end of the Strategy. Apple Inc., a company that needs no introduction, had a blistering quarter and full year for that matter. The stock has performed exceptionally well, as iPhone sales have proven to be more resilient than expected and the stock is increasingly looking forward to the potential for a substantial replacement cycle when the 5G enabled iPhone becomes available later this year. Services and wearables also continue to show excellent growth for Apple, helping lower their reliance on traditional hardware. While we remain positive on Apple's long-term fundamentals and business model, we think the valuation on the stock has gotten a bit extended, and may lower the position size a bit on further strength.

On the negative side of the performance ledger, we had a few names whose prices underperformed the market in the quarter, adversely affecting the Strategy's overall return. Financial futures exchange giant CME Group Inc. was the largest detractor for the Strategy. Trading volumes were weak in the quarter, given lower volatility in many of the underlying asset classes that CME provides trading in. The stock tends to outperform during times of market crisis and underperform during periods of calm, almost serving as a bit of a hedge to overall market conditions in the Strategy. While the stock's valuation is toward the higher end of its long-term range, CME is one of the best free cash flow producing business models we've ever encountered and we continue to like it as a long-term, evergreen holding. Starbucks Corp. was essentially flat in the fourth quarter, underperforming a strong market. Despite reporting a solid fiscal fourth quarter, the stock consolidated some of its recent gains. We think Starbucks has consistent, long-term, double-digit earnings growth potential with a steadily growing dividend, and have the position sized in the middle third of the Strategy.

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FOURTH QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
United Health Group Inc.	+147	+35.80%
Apple Inc.	+130	+31.50%
Amgen Inc.	+102	+25.40%
Morgan Stanley	+92	+20.71%
Microsoft Corp.	+82	+13.82%
Bottom Detractors		
CME Group Inc.	-16	-3.49%
Starbucks Corp.	-4	-0.08%
Chevron Corp.	+6	+2.61%
Diageo PLC	+14	+4.32%
American Tower Corp.	+22	+4.39%

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. 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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Portfolio Activity

During the fourth quarter, the Strategy purchased one new name, Cerner Corp., and exited its position in TE Connectivity Ltd. We like Cerner for several company-specific reasons, but also liked the benefit to the overall Strategy of increasing our Health Care weighting and lowering our macro-economic cyclical exposure. Kansas City, MO-based Cerner is a leading supplier of health care information technology solutions and tech-enabled services that support the clinical, financial and operational needs of health care organizations of all sizes. Best known for its electronic health record (EHR) software, Cerner has systems in more than 27,500 facilities worldwide, including hospitals, physician practices, laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics, surgery centers, extended care facilities, retail pharmacies, and employer sites. Cerner has one principal competitor (Epic, privately held), and has built an enduring economic moat due to embedding its systems into its client's practices who, in turn, have high switching costs.

TOP 10 HOLDINGS AS OF 12/31/19	
Company	**% of Assets**
Microsoft Corp.	6.02%
American Tower Corp.	5.67%
Lowe's Companies Inc.	5.12%
United Health Group Inc.	4.80%
Apple Inc.	4.76%
Raytheon Co.	4.65%
Becton, Dickinson and Co.	4.55%
Microchip Technology Inc.	4.47%
Amgen Inc.	4.34%
Union Pacific Corp.	4.33%

Holdings are subject to change. Strategy 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.

Our investment thesis in Cerner revolves around the following main tenets:

- *Maturing business, but still has decent top line growth prospects* **–** we believe Cerner's fastest growth days are behind it, as the Health Care IT software market has matured, but it's still targeting 6-9% revenue growth over the next four years.
- *New leadership with an activist "push"* **–** Cerner had arguably gotten a little complacent over the last several years, but as part of the leadership transition from the former founder, a new CEO was brought in to lead the company in 2018. Combined with a push from a well-known activist investor, we believe positive agents of change are in place for a more optimal strategy and better capital allocation.
- *Opportunity to expand margins over next few years* **–** As part of the new leadership and activist campaign, Cerner has put in place a plan to expand its operating margins from 18.8% in 2018 to a target of 22.5% exiting 2020, with more potential upside in the years beyond.
- *Net debt free balance sheet and sizeable capital return program* **–** Cerner's balance sheet has almost no net leverage today. Combined with its healthy free cash flow, the balance sheet will allow Cerner to return substantial capital to shareholders. They've started with a $1.5 billion share repurchase program (~7% of shares outstanding) and initiated a dividend for the first time. While the initial yield on the dividend is relatively low at 1.1%, it only represents a 23% payout ratio, and we believe the dividend should grow substantially in the years to come.
- *Accelerating earnings per share growth at a reasonable valuation* – With moderate top line growth, expanding margins and a shrinking share count, we believe EPS growth should accelerate in the next few years. Despite all of these potential positives, the stock at our initial purchase price was not overly expensive, at 20x 2020 estimated earnings and 11x EBITDA, giving us an attractive risk-reward to start a position.

Outlook

U.S. corporate earnings growth, which is the biggest long-term driver of stock prices, was quite anemic in 2019. Once earnings are tallied up with the fourth quarter reports, the S&P is likely to have only grown earnings 1-2% in 2019. The outlook appears better for this year, with current Wall Street consensus for 10% earnings growth in 2020, although bottoms-up estimates are likely too high, with mid-single digit growth a more realistic number, in our opinion. It's not uncommon to see forward estimates be revised lower as individual companies give their annual outlooks with their year-end reports, an annual phenomenon that has occurred for the last several years. Given relatively easy comparisons, increased confidence in improving global economic growth, and lower probability of recession, 2020 could be a much better year for underlying

earnings growth. That said, we expect management teams to remain on the conservative side when setting forward expectations. The 31% market return this year was nearly all due to P/E multiple inflation, not from solid underlying earnings growth. With the market trading at 18.3x 2020 and 16.5x 2021 earnings estimates (which are probably still too high) versus a very long-term average around 16x, we still don't see a whole lot of margin of safety in valuations, considering we're likely late cycle, particularly if earnings growth doesn't pick up this year. This view is consistent with our bottoms-up view on individual companies, both within the Strategy and potential new ideas. It's difficult to find a lot of high quality growth businesses selling at reasonable valuations today. As always, while we may opine on our view of the overall market, we do not pretend to have any ability to predicting where the market is heading in the short or intermediate term. It is a very difficult, if not impossible, task to add value with market timing, and we certainly didn't foresee how strong the market would be in the fourth quarter. We continue to focus the Strategy's efforts on owning companies with what we believe to be 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 sell off, and we continue our "bottoms-up" search to optimize the Strategy. Our disciplined investment process focuses more on individual company fundamentals and less on the overall market.

Given this letter brings us not only to the end of the year, but also the end of the decade, we thought it might be worthwhile to reflect on what has transpired over the past 10 years. From the depths of despair in the Global Financial Crisis in 2008-2009, the U.S. has had an amazing run of improving prosperity over the last decade. This decade long run isn't just seen in the historically long economic expansion (first post-war decade without a recession), and stock market returns (13.5% annualized) which, as wealth managers, tends to be our focus. There was an excellent short article in the December 17th edition of the Wall Street Journal entitled "The 2010's Have Been Amazing" that really put global accomplishments of the last decade in perspective. It's easy to get drawn into the daily media headlines that seem to be nothing but negative, but step back and take a longer point of view, and there is actually a lot of good news around the world to be reported that largely goes unnoticed because it changes so slowly. Worldwide declines in extreme poverty, improvements in human health and life expectancy, and progress on improving our environment were statistically global success stories in the last decade. There is reason to be optimistic that human ingenuity can continue to solve the major problems that it faces and life can get better from here. Heck, if the Chicago Cubs were able to win a World Series this decade, anything can happen! On this more optimistic note, we'd like to wish everyone a happy new year and a sincere thank you for the continued trust you place in us to manage your assets. If you have any questions, please do not hesitate to contact us.

Sincerely,

Todd Griesbach
Portfolio Manager

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RMB Asset Management

Dividend Growth Strategy // 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 was 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, 2018. 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. The Dividend Growth composite has been examined for the period of April 1, 2005 through December 31, 2015. The verification and performance examination reports are available upon request. RMB AM maintains a complete list and description of composites, which are also available upon request.

Description | The Dividend Growth Strategy reflects the performance of fully discretionary dividend growth 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 index. The Dividend Growth Composite was created on April 1, 2005 and includes all accounts that are managed in accordance with the Dividend Growth investment strategy. An account is included in the Composite on the first day of the first full month the account is under management. 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 (%)
2018	4,291.7	204.2	474	-2.11	-2.58	-4.38	10.91	10.80	0.07	0.36
2017	3,610.6	219.4	507	19.21	18.64	21.83	10.11	9.92	0.07	0.40
2016	3,047.5	204.6	516	14.77	14.21	11.96	10.95	10.59	0.06	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	N/A	N/A	0.00	0.70
2009	1,613.9	29.7	189	28.81	27.20	26.46	N/A	N/A	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	N/A	N/A	0.00	N/A

The 3 year ex-post standard deviation is not presented prior to 2011 because it is not required. Results shown for the year 2005 represent partial period performance from April 1, 2005 through December 31, 2005.*

Fees | *Effective January 1, 2011, RMB Capital's asset management fee schedule for this Composite 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 asset management fees charged by RMB 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 means it is net of transaction costs but gross of asset management fees, custodian fees and withholding taxes. The payment of actual fees and expenses would reduce gross returns. The compound effect of such fees and expenses should be considered when reviewing gross returns. The net returns are reduced by all actual fees and transactions costs incurred. The composite includes accounts that pay asset-based pricing for trading expenses. The maximum fee is 15 basis points per year; however, many accounts pay lower amounts due to household break-point relief. Returns for those accounts prior to 3/1/19 do not reflect the deduction of asset-based pricing, and are therefore gross of trading expenses. These accounts represent approximately 81% of composite assets. In addition to an asset management fee, some accounts pay a wealth management fee based on the percentage of assets under management to RMB Capital. 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 no account minimum in the Dividend Growth Strategy.*

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. An investment cannot be made directly in an index. The returns of the index do not include any transaction costs, management fees, or other 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 in the Composite. Benchmark returns presented are not covered by the report of independent verifiers.*

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Other *| Past performance is not indicative of further results, and there is a risk of loss of all or part of your investment. 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.*

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 Strategy at the time you receive this letter or that securities sold have not been repurchased. The securities discussed do not represent the entire Strategy 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 U.S. 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; and (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. High-quality stocks are those that we believe offer greater reliability and less risk. The quality assessment is made based on a combination of soft (e.g., management credibility) and hard (e.g., balance sheet stability) criteria.

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