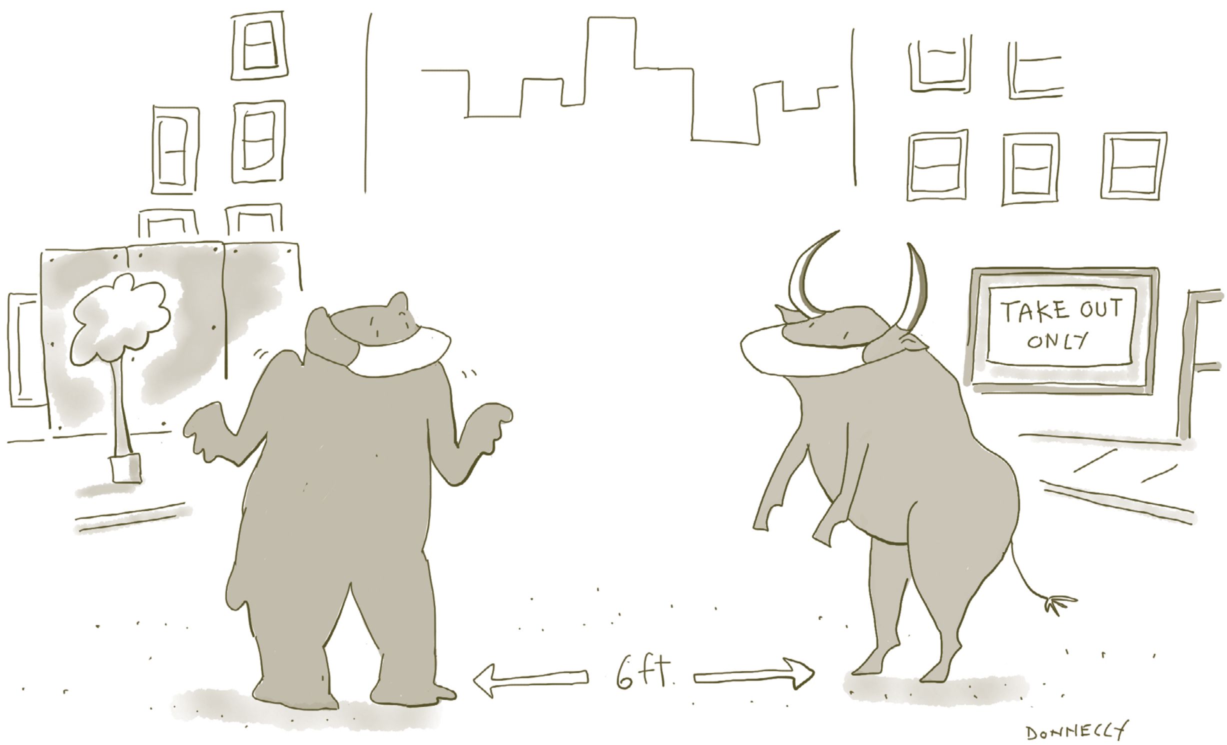
INVESTED

SEMIANNUAL FINANCIAL PERSPECTIVE FROM RMB CAPITAL / SUMMER 2020



WHAT'S NEXT?

UPDATES ABOUT OUR BUSINESS

In early 2020, Michele Francisco was named to lead RMB's wealth management business.

Michele is working side by side with Dick Burridge as she transitions into this role over the course of the year. "Fred Paulman and I have worked closely with Michele since 2001, four years prior to RMB's inception," said Burridge. "She has helped set the standard for client service at our firm from the very beginning. Her skills in both financial planning and relationship management have been instrumental in serving our largest and most complex clients for the last 12 years. I have complete trust and confidence in her ability to lead our wealth management team well into the future."

RMB Capital marked its 15th Anniversary as an independent firm on April 1, 2020.

The milestone passed with a backdrop of dramatic market volatility, as the global pandemic and related shutdowns were in the early stages. "Fred Paulman and I have had a vision for this firm that's guided us since day one, and I don't think you can overestimate how important that is, especially given the uncertainty and cyclicality that's inherent in our industry," said Dick Burridge. "I've never been prouder of our team—the way our employees have rallied together to provide continuity and guidance for our clients through these unprecedented circumstances has been remarkable."

The Summer 2020 edition of INVESTED has been produced solely in a digital format.

Given current events related to the global pandemic, its impact on financial markets, and the rapid pace of the news cycle, we chose to forego the printing process so that we could get this content out to our readers more expeditiously.

At the end of January, RMB Capital launched its new website at www.rmbcapital.com.

In addition to outlining who we are and what we do for those seeking the services we can provide, our website also has valuable resources for existing clients! Access a vast library of RMB news and insights, using the search refinement options to filter for specific topics of interest. Learn more about your advisory service team members (or anyone else at RMB) via the people page. By clicking on someone's bio, you'll see any articles that were written by or about that employee. Refer to the utility bar in the upper right corner for links to log into your RMB account or to visit our YouTube, LinkedIn, or Facebook profiles. Please explore and let us know what you think!

The RMB Retirement Plan Solutions (RPS) team's efforts were recognized by PLANADVISER and the National Association of Plan Advisors (NAPA) this spring.

RPS focuses on driving measurable improvements across all aspects of an organization's retirement plan in order to optimize outcomes for the firm, its employees, and its executives. James Rosselle *(V.P., Director of Retirement Plan Solutions)* was named to the PLANADVISER Top 100 for 2020 list, among a small group of 13 in the "Individual Advisers with $1 Billion or More in Retirement Plan Assets Under Advisement" category. The firm's RPS business also drove the inclusion of RMB on NAPA's list of top defined contribution teams, which focuses on teams with at least $100 million in assets under advisement (AUA) and represents more than $1 trillion total in defined contribution AUA.

Plotting a Course through *A Challenging Environment* as the Coronavirus Pandemic Brings the World to a Standstill

In 2019, stock and bond returns exceeded expectations. The stock market reached all-time highs as prices caught up with earnings growth and recovered from the sell-off in late 2018. Bond prices rose as interest rates declined due to a shift by central banks toward more accommodative policies. But 2020 brought increased volatility driven primarily by the coronavirus pandemic and its impact on global economic growth.

The 11-year bull market ended in early March, with steep drops in financial markets due to the impact of the coronavirus and an unexpected sharp decline in oil prices. Monetary policymakers and federal legislators responded very quickly to the crisis, providing support to financial markets, businesses, and employees. The Federal Reserve dropped its target interest rate to zero, reactivated many 2008-era liquidity programs, and expanded its open-market purchase activity. These measures were key in restoring the normal functioning of financial markets during the market stress. At the same time, congressional legislators assembled various financial relief packages to respond to the crisis and help bridge the economy through this period of contraction. The largest of these legislations, the CARES Act, provided over $2 trillion in support for the most directly affected parts of the economy.

The economic damage clearly has been severe, but its duration and full breadth are still to be determined. While the stock market appears to be signaling increasing optimism about future economic and corporate profit growth, the bond markets remain more somber. We believe a cautious approach is warranted given the uncertainty. We continue to stay the course with a disciplined, long-term investment approach, knowing that the economic recovery could be choppy for some time. Market volatility may remain elevated until the range of potential outcomes begins to narrow. Even so, we recognize that corrections and bear markets are a normal part of investment cycles and can create attractive buying opportunities for investors who are focused on the long term and willing to take on risk while others are fearful.

Earnings

Corporate earnings estimates for 2020 have declined significantly since the start of the year, and forecasting earnings for the next six to 12 months is challenging given the uncertainty around the coronavirus and the impact of related shutdowns.

Valuations

Despite a drop in U.S. and international stock prices, stocks do not appear cheap compared to trailing earnings results or falling-forward earnings estimates. In general, stock valuations are hovering above their long-term averages for most regions. »

Consumer Confidence

Confidence levels sharply declined as consumers felt the effects of the coronavirus pandemic and the many restrictions put in place to slow its spread. It is likely that consumer confidence will remain depressed in the near term.

Business Confidence

Business confidence levels are also very low. As some areas of the U.S. slowly reopen, many businesses are unable or hesitant to work at full capacity.

Monetary Policy

In March, between scheduled meetings, the Federal Reserve cut rates twice—down to zero—to combat the effects of the economic slowdown. The Fed has also released a series of sizeable programs to support financial market functioning and the flow of credit.

Fiscal Policy

Near term, fiscal policy is aimed at providing trillions of dollars to support the U.S. economy during this time of economic instability. Legislators and government officials have responded quickly in a bipartisan fashion to support businesses and consumers.

Credit Conditions

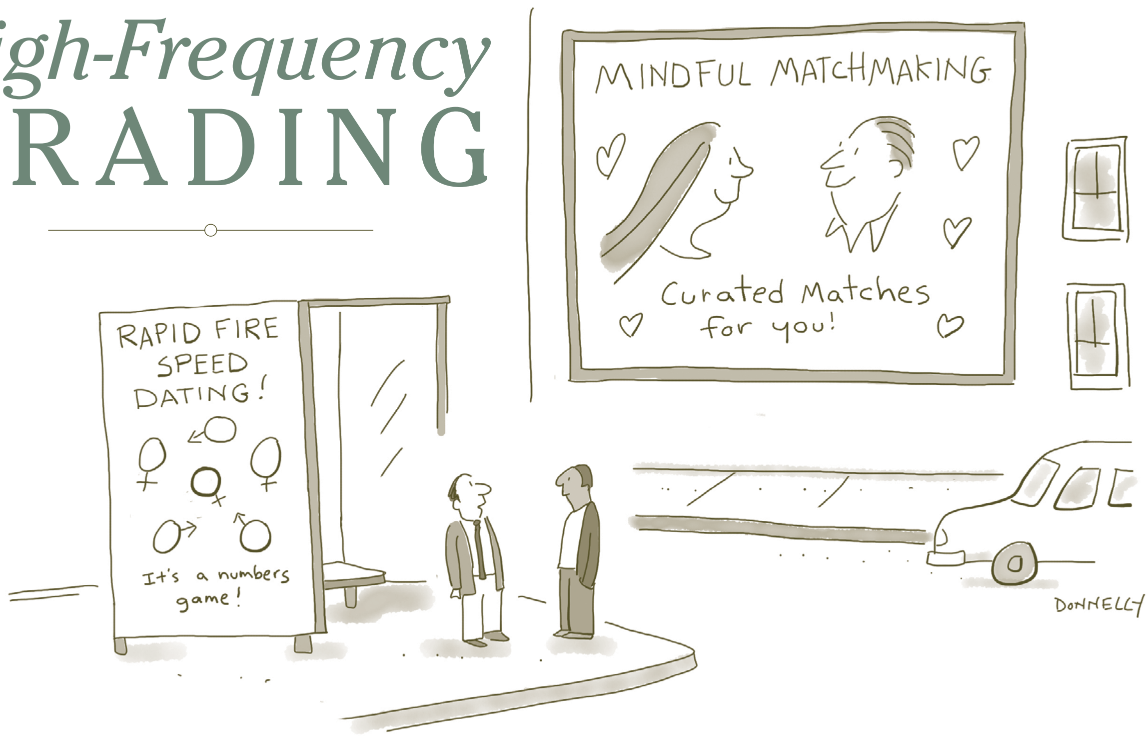
Corporations and small businesses will be more challenged to access new debt or refinance current debt in the current environment. The flow of credit to consumers may also be more limited.

Volatility

This year has brought about an increase in market volatility and uncertainty. Volatility is expected to remain at elevated levels in the near term, while the market recovery continues on its bumpy path. ■

BY **Charles P. Henness, CFA,** V.P., Senior Analyst, and **Ben Niu, Ph.D., CFA, CRM,** Senior Analyst

AN OVERVIEW OF *High-Frequency* TRADING



"You do it your way, and I'll do it mine."

High-frequency trading (HFT) has dominated the trading world in the last decade and today accounts for around 50% of U.S. trading. It has been criticized for the role it played in the Flash Crash of May 2010 but also praised for the liquidity it provides to the market. Public and regulatory pressures have led to massive consolidations in the industry, furthering its transformation. In this article, we will provide a description of the HFT landscape, review pros and cons of HFT, and discuss its role in the recent market drawdown.

HFT Overview

As a strategy, trading is a form of investing, albeit at the shorter end of an investor's time horizon. Career traders intend to make a profit in a shorter time frame, through buying and selling. While the process of trading can span a broad time spectrum—from fractions of seconds to months—HFT refers to the shortest of time frames and is performed at the fastest of speeds. More specifically, HFT is a type of algorithmic trading approach involving fast speed, high turnover rates, and high order-to-trade ratios. It takes advantage of sophisticated algorithms and powerful computers to generate an enormous number of trades in a very short time period, ranging from seconds to milliseconds.

Another key component of HFT is high-frequency market data, which is time-series market data collected intraday at an extremely fine scale. For example, each stock's » transaction data is collected whenever there is a trade, quote, or order. HFT executes automated moves in and out of securities over a miniscule time period in order to profit from slight price changes, which can accumulate enormous gains if those trades can be executed accurately and with superior speed. High-frequency traders typically liquidate their entire positions by the end of day, without taking any market exposure overnight.

The most common HFT strategies are market making and arbitrage.

• According to the SEC, a market maker is essentially a firm standing ready to buy or sell a stock on a regular and continuous basis at a publicly quoted price. Market makers earn a profit on the difference between the bid prices buyers are willing to pay and the ask prices sellers are willing to accept. Given their high speed and frequent turnover, HFTs essentially provide liquidity in various markets.

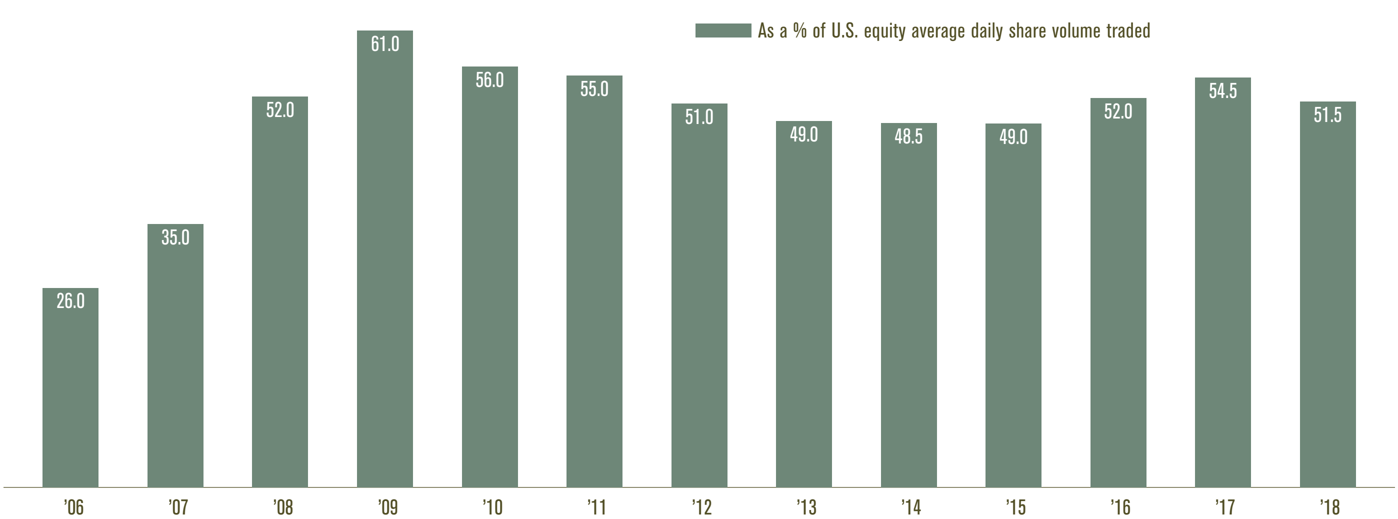
• Arbitrage trading takes advantage of price differences for the same security traded on different exchanges, or the same security and its derivatives. One very popular arbitrage trade is between the S&P 500 E-mini futures traded on the Chicago Mercantile Exchange and the S&P 500 Index traded on the New York Stock Exchange.

Other HFT strategies include news-based trading and direction-based trading, where more sophisticated algorithms (machine learning, big data, etc.) are used to exploit information from other sources like Bloomberg, Twitter feeds, and news websites.

The HFT industry has grown rapidly since its inception in the early 2000s. Today, it represents about 50% of trading in U.S. equity markets, down from its 2009 peak of 60% (Exhibit 1). HFT market participants mainly include independent proprietary trading firms (such as Virtu Financial, DRW Holdings, and Tower Research Capital), proprietary trading desks of investment banks like Goldman Sachs, Morgan Stanley, and Deutsche Bank, and hedge funds like Citadel, D.E. Shaw, and Renaissance Technologies. The HFT industry is highly proprietary, which limits the participation of retail investors.

Despite the large presence in the market, the HFT industry has faced tremendous challenges in the past decade, partly due to the depressed level of market volatility after the 2008–2009 financial crisis, which hurt HFT firms' ability to make profits. These firms also faced pressure from regulators as more rules and limits were designed to improve market transparency and reduce predatory activities in financial markets, both of which hurt HFT's competitive advantages. »

EXHIBIT 1 **HIGH-FREQUENCY TRADING: HALF OF U.S. STOCK MARKET TRADING VOLUME FOR PAST DECADE**



Source: Tabb Group estimate. There is no assurance that any estimate, forecast, or projection will be realized.

Pros and Cons

Since the emergence of HFT in the 2000s, there have been vigorous debates on its positives and negatives among academics, market participants, and regulators.

Positive Impact

• **Increased Liquidity:** The large number of trades executed by HFT traders generally improve market liquidity by reducing tick sizes (the minimum price movement of a stock) and narrowing bid-ask spreads. The use of algorithms and computers in trading also facilitates more frequent and accurate pricing updates.

• **Improved Market Efficiency:** In an efficient market, security prices should reflect market information quickly and accurately. HFT is believed by some to enable faster price discovery through its instantaneous processing of relevant market information.

Negative Impact

• **Amplified Systemic Risks:** Some research has shown that high-frequency trades tend to be highly correlated, which could intensify shocks that hit certain active high-frequency traders, and detrimentally affect the entire financial market. An example of this is the Flash Crash of May 2010, when the Dow Jones Industrial Average fell by 600 points (down ~6%), and then recovered within a few minutes—all a result of a faulty trading algorithm (Exhibit 2). »

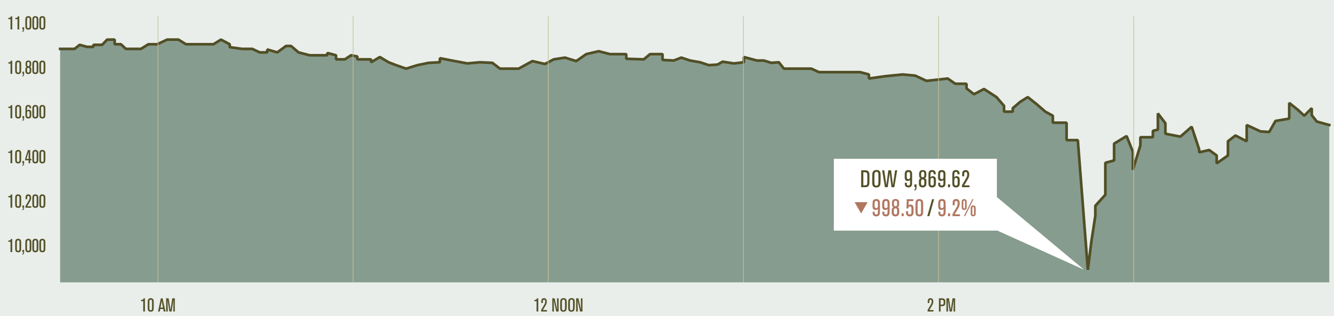
EXHIBIT 2 THE MAY 6, 2010, FLASH CRASH

On May 6, 2010, a trader at a large U.S. mutual fund firm entered an order to sell 75,000 E-mini futures contracts, which mimic movements in the S&P 500 Index using a trading algorithm that had specifications only for volume, but not price and time. A number of HFT firms that had bought a part of these contracts from the mutual fund firm soon started selling these themselves in addition to the mutual fund firm, which was still trying to sell its remaining futures contracts.

Soon, the HFT firms started trading these contracts among themselves, creating a loop that resulted in the price of these contracts falling rapidly within minutes.

Between 2:45:13 p.m. and 2:45:27 p.m., firms traded over 27,000 contracts, accounting for about 49% of the total trading volume, and resulting in a huge drop in the Dow Jones Industrial Average. At 2:45:28 p.m., trading had to be paused for five seconds as the falling prices had triggered a stop logic functionality. When trading resumed, prices stabilized and the contract started to recover rapidly.

Later, a SEC report on the May 6 Flash Crash clearly mentioned that aggressive selling by HFT traders accelerated the index decline on this date, and the event was instrumental in bringing the potential implications of HFT to the notice of regulators all over the world.



Source: Capgemini, "High Frequency Trading: Evolution and the Future," 2012.

• **Increased Volatility:** HFT executes intraday trades with large positions, typically within minutes or even just seconds. This trading pattern introduces very frequent price fluctuations and may increase overall market volatility given HFT's dominant share of total trading volumes.

• **Harm to Institutional and Retail Investors:** There have been allegations from institutional investors that HFT strategies front-run their trades by detecting incoming order flow, buying the same security, and then selling the security to the institution at a slightly higher price. Such activities implicitly increase the transaction cost for institutional investors. Retail investors are indirectly impacted by those activities as many of them participate in the market via institutional investors such as mutual funds.

RMB's View

The recent extraordinary market drawdown due to COVID-19, at a pace even more rapid than during the 2008 Great Financial Crisis, was likely amplified by the prevalence of HFT. In March 2020, when markets were hit with waves of negative shocks (macro disruptions and changing firm fundamentals), the market quickly went into panic-selling mode. The HFT algorithms were triggered to execute much more frequently due to the moves in the market. Meanwhile, HFT market makers were forced to reduce their trade sizes due to the volatility spike, which resulted in more trades but smaller order sizes. The combination of these circumstances essentially intensified the already increased volatility and reduced the liquidity. HFT firms took advantage of widening bid-ask spreads and fast-moving markets. Virtu Financial, one of the biggest HFT firms, said its trading income in Q1 more than doubled the previous year's income from the same period.

While the merits of HFT are debatable, the overall impact to RMB and our clients is relatively limited. If HFT is at one end of the investor time horizon, RMB's investment approach is at the other end. Our investment time horizon is measured in years, not months, days, hours, or nanoseconds. We're likely to come into contract with the HFT world when we're executing buys and sells for clients and within underlying active investing strategies, given HFT's 50% share of volume. However, given our long-term approach to investing and sensitivity around taxes, our portfolio turnover and trading volume are relatively limited. Consequently, less trading and portfolio turnover minimizes the impact HFT may have on RMB clients' portfolios. ■

Index Descriptions

- The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets composing approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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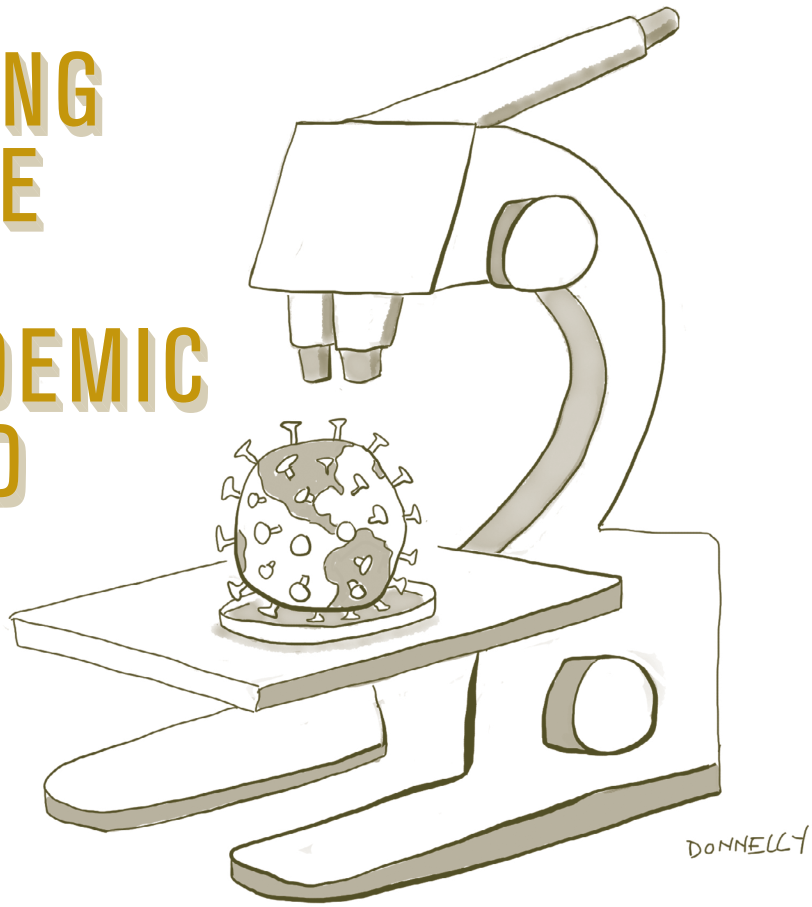
BY **Thomas Fanter,** S.V.P., Director of Research, **Jeff Jones, CFA, CPA®,** V.P., Senior Analyst, and **Jim Plumb,** V.P., Senior Analyst

ASSESSING CHANGE *IN A* POST-PANDEMIC WORLD



The world will look different once it emerges from the coronavirus pandemic—and that will have important consequences for investors across all sectors of the market. Those differences are now being debated and, in some cases, depend on the course we follow in getting to the other side of the outbreak. With the full impact of the pandemic still unfolding, now is the time for investors to carefully observe what is already changing, and to build a mental map for navigating the changes to come. Members of RMB's Research Core, our team of internal equity research sector specialists, discuss some of the changes already unfolding, the likely permanence of these changes, and key questions yet to be answered across several key sectors of the market: Technology, Health Care, and Consumer. »

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Technology

In the Technology sector, stay-at-home mandates have pushed businesses and consumers alike to adopt technology offerings in just weeks that otherwise might have taken years to catch on to the same degree. The software and hardware infrastructure needed to reliably enable videoconferencing, secure remote devices like laptops and mobile phones, and deliver other work-from-home capabilities will likely see a permanent step up in importance as companies accommodate a workforce now more familiar with remote work. Video gaming companies will see a lasting benefit as new game consumers who experimented during a lockdown become more serious gamers. Cloud gaming platforms such as Google's Stadia or Microsoft's upcoming xCloud, which offer a lower-priced gaming experience, could see particular traction with these consumers who, while converted, may still hesitate to buy a traditional $300 gaming console or a $60 game.

Meanwhile, several ongoing secular technology trends will press forward unimpeded—or even be accelerated—by the coronavirus crisis. The migration of corporate computing infrastructure from company-owned data centers to third-party operation by major public cloud providers such as Amazon Web Services will continue to unfold, with beneficiaries including the cloud platform providers themselves as well as the many companies providing cloud-based enterprise software to run on these platforms. Likewise, the buildout of 5G wireless networks and the range of services that they enable will benefit providers of the network equipment, semiconductors, and software needed to create and manage these networks.

In other areas of Technology, the path forward appears less certain. The digital advertising revolution has created modern technology giants—Facebook and Google in particular—but relies heavily on industries such as automobiles and quick-service restaurants, some of which may see advertising budgets permanently reduced. Other services, such as digital music and podcasts, may see consumption headwinds due to changing life routines, like a shift from commuting to remote work. In general, the existential threat posed to small and medium-sized businesses by the pandemic's severe economic shock poses a significant challenge for technology providers that target this market segment.

Health Care

Within the Health Care sector, the initial impact of the coronavirus outbreak and related social distancing has brought an increase in the use of telehealth services, many fewer office visits across health, dental, and veterinary practices, delaying of elective surgical procedures, and even a reduction in biopharmaceutical clinical trial enrollment. How long these conditions persist depends partly on the success of slowing the spread of infection so the health care system is not overwhelmed and can resume functioning normally. Here, key milestones include having accessible testing to screen for COVID-19 (both polymerase chain reaction (PCR) tests to determine who currently has the infection and serologic tests to determine who has been infected and should now be immune), achieving herd immunity (generally considered 70–90% immunity among a population, driven by serologic testing), and eventually developing a therapeutic vaccine.

Even after the pandemic is contained, we anticipate continued adoption of telehealth services, a strong focus on diagnostic testing, a recovery in elective procedures, and continued acceleration of R&D investments by the pharmaceutical and biotechnology industries. High-quality participants in a variety of secular themes will be the likely beneficiaries. These include participants in the personalized medicine value chain, enablers of minimally invasive surgical procedures, those boosting health care provider productivity, and diagnostic testing providers.

Exactly how consumers and Health Care companies move forward from the coronavirus public health crisis is difficult to predict. For example, will the shift toward elective procedures being performed at outpatient facilities rather than hospitals accelerate? It is common in the industry for hospitals to have relatively high financial leverage, so any changes to profitability can be magnified. Will medical and dental patients reschedule annual or semiannual checkups that were missed or simply defer » for a year? Will companies reconfigure China-based supply chains for active pharmaceutical ingredients back to domestic supply sources? These considerations will have bearing on the financial future of many companies in the sector.

Consumer

While the long-term psychological impact to consumers from shelter-in-place orders remains to be seen, in the near term there will be significant winners and losers across consumer-related industries. With very few exceptions, all "non-essential" retail was shut down across the country—shopping malls, movie theaters, fitness centers, bars and restaurants, cruise lines, ski resorts, amusement parks, and casinos. Many remain closed, and for businesses without e-commerce capabilities, this means zero revenue for an indefinite period. Larger, well-financed companies with greater access to capital can likely survive six to 12 months with little revenue. But a significant number of the many thousands of small independent businesses may never reopen for business.

Traditional enclosed malls with anchor tenants such as J.C. Penney, Sears, and Macy's were barely surviving before the pandemic, hurt by the shift to e-commerce long since underway. Now the three largest retailers in the United States—Amazon, Walmart, and Costco—seem likely to extend their dominance. More recent consumer trends that are poised to accelerate include food delivery, e-learning, at-home connected fitness, and the consumption of streaming video services. How embedded these trends become depends in part on how long consumers are asked to stay at home and not socialize, as well as how people behave as lockdowns are lifted. While it may seem unthinkable at this point to visit a packed Disney World or to attend a college football game, American consumers have historically valued such experiences while socializing with friends and family. How short will our memory be of this crisis? Could we be moving toward a world where sports are played in near-empty stadiums, packed theme parks are a thing of the past, or college campuses are half occupied as students opt for online classes? Answers to these questions will have much to say about winners and losers in the Consumer sector and beyond.

Conclusion

There is limited historical precedent about the path the global economy, the financial markets, and our society will follow from here. Given this, investors are well served by taking inventory of what has changed, thinking critically about which of those changes are likely to persist as the crisis subsides, and incorporating new information as it is learned. Persistent change will reinforce the position of some market leaders while dislodging others—and is often underestimated by the financial markets over the long term. At RMB, we are firmly focused on identifying and capitalizing on these long-term opportunities for our clients. ■

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PLANNING IN UP AND DOWN MARKETS

BY Kristy McCullough
S.V.P., Wealth Advisor

Market ups and downs are normal. In February of this year we hit an all-time market high, which was followed by one of the fastest market drawdowns in history. At the same time, interest rates remain extremely low, and estate and gift tax exemption limits remain high. While we can't predict or control which direction the market will go—especially in the short term—we can use planning techniques in different market environments in order to improve financial outcomes and reach goals beyond just relying on investment performance.

Planning Techniques for Up Markets

When markets are high, as they were at the beginning of the year, the following tactics can be considered in the appropriate client situation. The theme behind these is that they capitalize on market highs while also satisfying other objectives, such as generating cash and/or reducing risk by taking some profits off the table.

1. ***Accelerate Required Minimum Distributions (RMDs) from IRAs.*** Some individuals wait until year-end to take distributions or spread them out over the year. When markets are profitable, consider making withdrawals to satisfy your annual RMD sooner.

2. ***Explore Charitable Giving Opportunities.*** Make qualified charitable distributions (QCDs) from an IRA when markets are profitable or accelerate charitable gifts (potentially several years' worth) using appreciated stock. Gifts of appreciated stock avoid capital gains on sale and provide charitable deductions equal to the fair market value of the stock.

3. ***Consider Family Gifts.*** Instead of waiting until year-end holidays to make gifts, consider making gifts earlier in the year, or raising cash by selling stocks and setting the cash aside if you prefer year-end gifts.

4. ***Assess Cash Flow Needs.*** Review near- and long-term needs and consider setting aside cash within investment portfolios to address a longer period of cash flow needs.

5. ***Rebalance Portfolios.*** Harvest gains by trimming stocks (or de-risking) at high prices and adding to less volatile investments.

Planning Techniques for Down Markets

The 11-year bull market came to an end in March and was replaced with dramatic volatility, largely in reaction to the COVID-19 pandemic and related lockdown. Even though the markets have somewhat recovered, the economic impact of the pandemic has been substantial and more volatility is likely. Following are techniques that clients can consider, depending on their circumstances, in order to take advantage of depressed prices.

1. ***Accelerate 401(k) Contributions.*** Review your current investment allocation and consider accelerating contributions to take advantage of depressed prices.

2. ***Consider a Roth Conversion.*** For certain individuals, it may make sense to convert your traditional IRA to a Roth IRA, realizing the income today and repositioning assets for future market appreciation »

tax-free. *(See our Advisory Commentary from April 14, 2020, which recaps recent legislative changes, highlights important considerations, and illustrates sample long-term scenarios.)*

3. ***Rebalance Portfolios.*** Rebalance to existing targets or potentially increase your equity target, where appropriate, to take advantage of lower prices and better position your portfolio going forward.

4. ***Harvest Tax Losses.*** Reduce your tax liability and offset capital gains by booking tax losses in stocks that have declined below their purchase price. *(To learn more about this, see Tax Loss Harvesting: What, How, and Why? last updated on March 13, 2019.)*

5. ***Exercise Stock Options.*** When options are close to expiration and higher in value than the original grant price (a.k.a., "in the money"), consider using cash to exercise options and hold the underlying stock.

6. ***Refinance Debt.*** Consider refinancing mortgages and other debt, as low interest rates provide low "hurdle rates" for investments to grow faster than interest obligations.

We can always count on markets to be cyclical, even if we cannot predict how long those cycles will last or how swift and severe the swings will be. Having a financial plan based on long-term goals provides a road map to help you stay the course through different market environments. And reviewing that plan with your advisor can also inform conversations about when to pump the brakes or press the accelerator in light of current conditions and your own personal circumstances. ■

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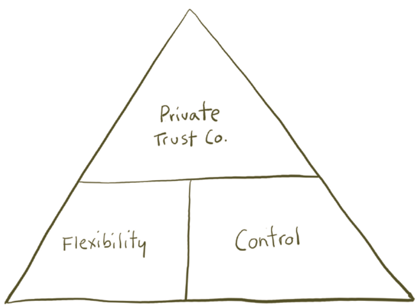
BY **Terrence LaBant, J.D.**
S.V.P., Director of Wealth Strategy

A GUIDE TO *Private Trust Companies* TODAY



Estate plans are generally established to preserve family legacies. Early in my career, tax planning was a focus since estate tax exemptions were notably lower and estate tax rates were notably higher than today. Individuals now focus on broader decisions relating to the extent, timing, and stewardship of family inheritance across many generations.

As estate planning goals have evolved, so have considerations around choosing trustees and investment advisors. Whereas people may previously have named friends and family members as trustees, they are now more likely to hire professionals to preserve their long-term family legacies. Naming corporate trustees for administration is more common than ever, as well as seeking investment advisors who are best suited to attain investment goals that complement family legacies.

How the Corporate Trustee Role Has Evolved

When you consider naming a corporate trustee, you may think of a traditional bank with a corporate trust company. However, the role of a corporate trustee has evolved greatly over the past few decades, and you now have more choices to fill this important role.

Until the late 1980s, corporate trustees followed the traditional "delegated trust" model. This model could easily be referred to as the "non-delegated trust" model, though, because it discouraged trustee delegation of important responsibilities like investment management. For example, the corporate trustee could select and hire an outside investment advisor, but would remain responsible for investment performance that is not otherwise protected under "prudent investor" rules set by individual state law.

For this reason, traditional corporate trustees under the delegated trust model would retain custody of all assets, control beneficiary distributions, and manage all investments in house. This approach often led to a reputation for higher fees, lower beneficiary service continuity, and conservative (lower) investment performance.

Since the late 1980s, state trust laws have evolved, and most allow corporate trustees to follow the modern "directed trust" model. Under the directed trust model, the trust agreement names separate fiduciaries to manage investment, business, or distribution decisions. This model provides the corporate trustee with greater flexibility to focus on trust administration while involving others to take responsibility for their respective roles. This approach often leads to lower fees, increased beneficiary service continuity, and strategic (higher) investment performance. »

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The Prevalence and Appeal of Private Trustees

To avoid confusion between these separate trust models, I will refer to the corporate trustee under the directed trust model as a "private trustee." For example, a trust agreement following the directed trust model could name a private trustee to manage trust administration. It then could name and fill additional roles for:

- investment advisors who manage assets based on their respective specialties;
- business advisors who manage private family business interests;
- special asset advisors who manage nontraditional investments, such as oil and gas interests, real estate, or private equity; and
- distribution advisors who manage discretionary beneficiary distribution decisions.

Because family members retain control over the hiring and firing of each respective advisor, they maintain flexibility and control. Since each advisor is treated as a fiduciary, the acts of one advisor do not create additional risk for the others. The evolution of the directed trust model has created a growing industry of private trust companies that focus solely on trust administration—especially in states with the most progressive directed trust statutes, including Alaska, Delaware, Nevada, New Hampshire, South Dakota, and Tennessee.

Private trust companies retain more inclusive and diverse relationships with outside professionals, including investment advisors. Investment advisors value these relationships because they promote continuity in family client relationships over several generations.

Investment advisors also appreciate the flexibility to work with one another regardless of custodian or investment style while supporting common family goals. They enjoy preserving professional relationships with attorneys and accountants who have served alongside them for years.

Selecting a Private Trust Company

There are several questions to consider when naming a private trust company, including:

Does the trustee offer a directed trust option?

Does the trustee offer directed trusts through more progressive states listed above?

Does the family prefer working with one or more outside investment advisors?

Does the trustee work well with outside investment advisors?

Does the trustee work well with family members to make discretionary beneficiary distributions?

Does the family prefer someone other than family members to handle beneficiary distributions?

Does the trustee work well with outside/multiple custodians?

Does the trustee provide consolidated reporting for investment purposes?

Does the trustee provide annual trust accountings to beneficiaries and tax advisors?

Does the trustee prepare annual income tax returns if needed?

Does the trustee accept all trusts, including special needs trusts?

Does the trustee accept trusts with special or business investments? »

If you decide to name a private trust company, plan to take the following steps:

1. Review potential options with your investment advisor.
2. Review relative service options, fee schedules, and state law preferences to meet your needs.
3. Review required trust language to memorialize appointment.
4. Work with a family attorney to update trust documents as needed.

Private trust companies often offer services as a sole trustee, co-trustee, or agent for trustee. These different service levels allow clients to get assistance with items like bill pay while they remain healthy. Private trust companies can then transition to shared or sole trust administration responsibility later. Private trust companies typically charge less for all service levels since they focus on trust administration alone.

The evolution of the directed trust model provides families with greater control and flexibility regarding the professionals they choose to work together for their benefit. Private trust companies have grown to support this. ■

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Reminders

Compliance

Please advise us promptly in writing of any significant change in your financial situation or investment objectives. In addition, please notify us if you want to modify any existing investment restrictions or impose new restrictions on your accounts.

Please note that RMB Capital is not a custodian and generally cannot accept or forward deposits for client accounts. Any cash or securities must be sent directly to the custodian of your assets and must reference your account number. Please contact your advisory service team if you have any questions about this.

DocuSign

We utilize DocuSign software, an electronic signature technology that enables you to sign forms electronically from your laptop, smartphone, or tablet. We believe this eases the administrative burden for our clients while keeping your personal and private information secure from cybersecurity threats.

Money Movement

Fraudsters have become more adept at finding ways to obtain vital information about others in order to use their identities. In an effort to stay ahead of these potential threats, we continue to enhance our protective measures against them. We receive daily alerts of money movement for our clients in order to monitor activity in the accounts. Additionally, for distributions of funds, we require both a client signature and, as an added precaution, verbal confirmation. Your Social Security number will not be requested as part of this verification process. We ask for your understanding and support related to these extra precautions, as we believe they can help protect your assets from landing in the wrong hands. If you have any questions, please contact your advisory service team.

Emails from RMB

We regularly send emails to our contacts from RMB Capital via info@rmbcap.com. Topics include investment and advisory commentaries, monthly e-newsletters, event invitations, surveys, and company news. To ensure that you don't miss emails from RMB, we suggest adding the address info@rmbcap.com to the safe senders list in your email program. Also, if you see any emails of this nature in your spam, junk, or clutter folders, we suggest moving those emails to your inbox. These actions will help your email system recognize our emails going forward and route them directly to your inbox. To find out whether you are subscribed to receive our emails, contact your advisory service team. You can also visit here to subscribe.

Phishing

Phishing is the act of trying to trick you into revealing confidential information; it usually takes the form of a spam email or link to a fake website that asks for personal or financial information. If you receive a suspicious email, double-check the sender's name and email address to confirm whether they are familiar to you. Check the address carefully, as fraudsters will sometimes use a variation on a common spelling to deceive unsuspecting users. Hover your mouse over the link to verify that the web address in the balloon pop-up matches the web address shown in the email. If you are unsure whether the email is authentic, do not open it or click on any links. Instead, call the sender directly to verify it. Keep in mind that Fidelity Investments, TD Ameritrade, and Charles Schwab will never request Social Security numbers or login information via email. If you receive such a request from a custodian, please do not respond to the message; contact your advisory service team instead. ■

BY **Kate Demet**
Partner, Chief Marketing Officer

Catching up with Co-Founder *Fred Paulman*

Lockdowns resulting from the coronavirus pandemic forced Fred Paulman, RMB Capital co-founder and president, to stay in one place much longer than he typically does. It was a great opportunity to schedule a chat with him and to hear his thoughts on happenings in the world at large and within RMB during this time.

Kate Demet: What a treat to get some one-on-one time with you, Fred, if only virtually. Let's start by talking about your role at the firm—how that's evolved over the years and how you're spending your time these days.

Fred Paulman: So, back when Dick and I started working together—even before we started RMB—we were both advisors and, though I had a CPA, we were both in the early stages of earning our Certified Financial Planner™ designations. Dick was effectively the chief investment officer in our team of two and was very passionate about picking investments, but my interests were always on the advisory side, working directly with clients. As we built our team, growing to the 15-person team we had when we broke away from UBS and started RMB, Dick and I had to figure out how our skill sets would translate to more managerial and leadership roles.

In my case, I found out about myself that I was less comfortable in a management role—especially when it comes to refining policies and procedures, doing performance reviews, and things like that. I felt I was better suited for more of a coach role, providing leadership and motivation. So, by and large, where I've added value to the organization over the last 15 years has been in continuing to spend time directly with clients, but in a role where I can provide mentorship for the other advisors in the firm. I've really enjoyed helping advisors who are earlier in their careers, teaching them about things I've learned over the years in advising clients and guiding them on solutions for our clients that can add value. To me, it's the best of both worlds. I get a lot of satisfaction out of helping our advisors build their careers and also spending time with clients.

In addition to that, we've always had an opportunistic approach to the way we've grown the business, whether it's opening new offices or bringing another firm or team on board. When opportunities popped up over the years, we would get the leadership team together and ask ourselves, "Who has the ability and desire to » parachute in and move this forward?" In the case of Jackson Hole, our first acquisition and geographic expansion, that was me. In the case of helping to establish our presence on the East Coast, that was me as well. I have never had a problem traveling, and I've really liked projects where I can work very closely with other advisors and new clients to help us make more connections in new markets.

Really, Kate, it's been a combination of my own strengths and the needs of our business that have shaped my role over the years. It's given me a lot of variety in how I spend my time, which I appreciate a lot because I'm not someone who would be effective sitting in the same spot and doing the same job all day every day. I'm much more fulfilled being active and "out in the field," so to speak.

KD: That makes a lot of sense based on what I know about you! So it sounds like you're spending as much time with clients as you always have, but your "Fred love" is just spread out over a larger number of clients as we've been expanding and in different geographic areas.

FP: Well, I'm not sure they'd think of it as "Fred love," but hopefully they do. But yes, my entire career has revolved around interactions with current and prospective clients. It's true that with the hundreds of clients we have in Southwest Michigan—many of whom I've known for 25-plus years—I don't see them as often. But we've got about 10 other advisors, including some who work out of our newest office in St. Joseph, that are seeing clients there all the time. Every year or so, I get over to one of the events we host in St. Joe, and it's definitely a reunion for me. And I connect with clients who are based in other cities when I'm traveling—it's just like planning a visit with old friends when in their hometown.

Most recently, in the past six months or so, I've been working more directly with some of our associates on the institutional side of the business. It's not dramatically different from the coach role I've played with wealth management advisors over the years—I'm mentoring younger people about how to establish and deepen relationships. In this case, the relationships are with industry professionals, rather than end clients, as we're looking for other ways to distribute some of our investment solutions. So I've been spending a lot of time helping them open doors, based on connections I've made over the last 25 years in this business. And even though B2B relationships aren't as personal, it's still important to be able to articulate how we can help them and what makes us different from others they may be talking to, so I'm leveraging the same skill set.

KD: Absolutely. I notice that you mentioned differentiation, and I'm curious to hear more of your thoughts on that.

FP: Sure, that's a good segue because I think challenging times like we've been facing over the past few months are when RMB really shines. I mean, when the market was going straight up for 11 years, it was hard for anybody to differentiate. Generally, when investments are performing well, clients are happy—or at least satisfied—with their advisor. But when things get really hard, advisors have more opportunity to add value. This is a classic example of a time when I don't see how robo-advisors can compete—automated algorithms can't address clients' emotions, and emotions are a big factor when times are tough.

I think back to the financial crisis in '08-'09—which was different in a lot of ways from the downturn we experienced this year, of course—and it was an 18- to 24-month slog when the markets were taking a beating. We had clients who were fearful and really feeling the pain from that, and we were on the phone with them a lot. Sometimes we'd call to talk about a new opportunity, but other times we'd just call to check in and see how they were doing. I think it really made a difference. As difficult as that time was, it strengthened our relationships because we genuinely cared. And I believe our clients are having that same experience now, and hopefully we're able to provide them with comfort and some sense of security. »

KD: I hope so, too. As you mentioned, the circumstances now are different in a lot of ways—so much of what's been happening with the economy and in our day-to-day lives is unprecedented. What are some thoughts you might want to share with our clients during this time?

FP: Yes, I think that the coronavirus pandemic has been a game changer in a lot of ways. It will impact the way that people do business and the way we interact. All of our clients are having their own unique experiences with it, depending on how it's impacted their families, what stage they're at in their lives, what industry they work in, and so on. But I think tailoring our approach, our advice, and our recommendations based on each client's circumstances is something we do genuinely well. So I'm confident we are up to the task.

Also, when I look back over the past few months, Kate, I'm really proud about the way that our team at RMB has been able to work at home. It's actually much more complicated than just having a computer and a phone, but thankfully we have technologies in place like DocuSign, WebEx, and other systems that allow us to do what we need to do for our clients. We're in a highly regulated industry and there are complexities in our business—I think about trading related to the different asset classes and investment vehicles we manage—and it's complicated. But for all our employees in their different roles to be able to carry on and get the job done from home, while maintaining a high level of productivity, has been extraordinary to me. When you consider that alongside all the emotions we've all been feeling about our own lives during this crisis, I think it's really amazing.

KD: I hear you. This time hasn't been easy on anyone, but I also know you're an optimist—are there any "silver linings" you see?

FP: Definitely. I'd say I'm as optimistic as anybody, and I still find myself crying almost daily. But those tears aren't always coming from a place of sadness or despair. I've been moved by seeing all the interesting ways people around the world are coming together. I've been excited to see how this has taken some of the sharp edges off business-focused discussions—people are more willing to be open, personal, empathetic. We're all human, and we're allowing ourselves to show it. I think that's a good thing. ■

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