Core Equity

Portfolio Update: Fourth Quarter 2019

In the fourth quarter of 2019, the Core Equity Portfolio (the "Strategy") increased +6.07% gross of fees (+5.93% net of fees), underperforming the positive +9.10% return for the Russell 3000 Index. For the full year, the Strategy increased +32.12% gross of fees (+31.46% net of fees), outperforming the +31.02% return of the Russell 3000.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Core Equity Strategy	+5.93%	+31.46%	+31.46%	+16.43%	+11.16%	+12.13%	+8.22%
Russell 3000 Index	+9.10%	+31.02%	+31.02%	+14.57%	+11.24%	+13.42%	+9.36%
S&P 500 Index	+9.07%	+31.49%	+31.49%	+15.27%	+11.70%	+13.56%	+9.32%

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 disappointed with the Strategy's relative underperformance in the fourth quarter as we gave back a good portion of our year-to-date outperformance; however, the Strategy still finished ahead of the benchmark for the year. As it turned out, our relative performance peaked in August and trailed off over the remainder of the year. From a longer-term perspective, we are proud that 2019 capped a fourth consecutive year of relative outperformance for the Strategy. We also were extremely pleased with the absolute return generated in 2019, aided by the best year for the market since 2013. We'll opine later on the potential for the market going forward, but (spoiler alert!) it will be nearly impossible to duplicate these level of returns. From a traditional attribution perspective, the Strategy's underperformance in the fourth quarter was nearly all driven by negative stock selection with a modest positive contribution from sector allocation. Negative selection was about evenly split in the technology, health care and consumer discretionary sectors with a positive contribution from the financial sector. While it's interesting to see drivers of performance over a three-month period, we remain focused on compounding shareholder capital over the long run, measured in years, not quarters. As mentioned last quarter, we have been attempting to take some macroeconomic-related risk off the table and make the Strategy a bit more defensive without making major wholesale changes or deviating from our long-term horizon. We feel it is prudent to become a little more defensive and not chase expensive momentum growth stocks, while adhering to our mandate to keep turnover low by owning high-quality, long-term compounding business models, and remaining close to fully invested.

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 the 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 25 basis points from 1.67% 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.

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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 bottom-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 with any hopes of being consistently accurate. We remain focused on bottom-up stock selection within a concentrated, yet diversified, portfolio of high-quality individual companies that can grow their earnings for years into the future and earn attractive returns on invested capital. No matter what happens with the current market cycle, we strongly believe the strategy positions us to outperform over the long run without taking undue risk.

Contributors and Detractors

The accompanying chart shows the Strategy's largest contributors and detractors to performance during the third quarter. The largest contributor was Fortune Brands Home & Security Inc. (FBHS), a manufacturer of branded products used for new home construction and home repair and remodeling projects. Its principal categories are plumbing, cabinets, doors and locks, owning some of the most well-known brands in the industry. The stock performed well in the quarter as it continues to have a macro tailwind from a reasonably healthy housing environment buoyed by a strong consumer and low interest rates. In addition, there has been some speculation that Fortune Brands could follow peer Masco Corp. (MAS) and eventually sell its cabinets business, its lowest margin segment, which we believe could be a good strategic move at the right price. We continue to like the intermediate fundamental prospects for the company, and have the position sized in the top third of the Strategy, although we acknowledge that the valuation is less attractive than when we initially purchased the stock, and the position could potentially be trimmed on further strength. IHS Markit Ltd. (INFO), a provider of information and analytics products, was the second largest contributor in the quarter. The stock continued to rise post a solid third quarter earnings report and fiscal 2020 guidance. We continue to like IHS for its consistent and predictable growth and longer-term margin expansion opportunity, although we acknowledge that the valuation isn't overly attractive even after its substantial run in 2019.

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FOURTH QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Fortune Brands Home & Security Inc.	+79	+19.86%
IHS Markit Ltd.	+68	+12.66%
SVB Financial Group	+64	+20.14%
First Republic Bank	+64	+21.68%
Visa Inc.	+58	+9.42%
Bottom Detractors		
ServiceMaster Global Holdings Inc.	-126	-30.85%
Alliance Data Systems Corp.	-39	-19.65%
Middleby Corp.	-29	-6.31%
Aspen Technology Inc.	-8	-1.75%
FrontDoor Inc.	-7	-2.38%

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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On the negative side of the performance ledger, we had several names that detracted from performance. ServiceMaster Global Holdings Inc. (SERV) declined significantly after warning its third quarter and full year results would fall short of forecasts. The shortfall largely stemmed from higher than anticipated claims costs for termite services performed with a particularly bad infestation in the Mobile, Alabama area. We think the ultimate costs for this particular issue are quite manageable in the context of ongoing cash flow and they will be paid out over a series of years. While we felt that the stock has overreacted, our conviction in the management team has waned somewhat from this experience and we have kept a smaller sized position for the near term. We continue to do more research on the name and consider it one that will likely be "up or out" in the intermediate future. Middleby Corp. (MIDD), a manufacturer of various types of food equipment for the restaurant, food processing, and residential markets, underperformed in the quarter. Middleby's third quarter earnings report was relatively weak, with organic revenue growth declining 3% and its near-term outlook does not project any significant rebound. We do like the "self-help" nature of the Middleby story in its ability to improve margins and integrate acquisitions over the next few quarters, although the stock will need to show more consistent low- to mid-single digit organic growth to materially rerate higher. The position size is in the middle third of the Strategy at year-end.

Portfolio Activity

During the fourth quarter, the Strategy purchased one new name, Progressive Corp. (PGR) and exited our positions in Alliance Data Systems Corp. (ADS) and Genesee & Wyoming Inc. (GWR). We sold Alliance after losing confidence in the management team and confidence that fundamentals could truly inflect positively in the intermediate future. Quite honestly, owning Alliance was our biggest mistake over the past couple of years, as it proved to be a value trap. If there is any solace in this losing position, it was the fact that it was on the smaller end of position sizes for the Strategy, and our taxable client base was able to harvest a loss in an otherwise strong return year. Genesee & Wyoming was exited upon the closing of the purchase of the company by Brookfield Infrastructure Partners. We were happy with the value we received in this all cash, "go private" transaction.

TOP 10 HOLDINGS AS OF 12/31/19

Company	% of Assets
Alphabet Inc. (both share classes)	6.46%
Visa Inc.	6.25%
IHS Markit Ltd.	5.57%
Steris PLC	5.10%
Danaher Corp.	4.99%
Edwards Lifesciences Corp.	4.93%
Cooper Companies Inc.	4.61%
Fortune Brands Home & Security Inc.	4.29%
Booking Holdings Inc.	4.27%
Nordson Corp.	4.26%

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 all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.

Progressive Corp. (PGR) is a property and casualty insurance company with a primary focus on personal auto lines and a secondary focus on commercial auto. The company is investing to grow its homeowners (personal lines) and small commercial insurance capabilities. There are two primary ways that Progressive drives profits: First, it earns a profit margin on insurance premiums written to customers, known as its underwriting margin; secondarily, it earns a return on an investment portfolio, otherwise known as 'float'. 'Float' is money (premiums) already received from customers that has not yet been paid out in claims.

We believe that Progressive has meaningful competitive advantages, including a mission- and vision-focused culture and industry leading advanced data analytics. The culture of continual product improvement and focused capital allocation has led to an advantage on competition over time, seen in its above industry average historical growth. The company's key focus is to grow as fast as it can, so long as underwriting margins come in higher than 4% (i.e. < 96% combined ratio). Progressive's advanced customer segmentation (derived from the advanced data analytics), product design, and superior distribution (direct distribution focus), leads to lower and less volatile customer pricing. In turn, this results in less volatility in loss and reserve trends, and lower customer attrition. Peers with less sophisticated segmentation models have wider swings in prices, which leads to higher customer attrition in periods when they're significantly raising prices. Progressive benefits disproportionately when peers are raising prices, as their customers tend to shop policies more frequently and the direct to consumer model shines.

The insurance industry is massive and we believe there is a lot of upside to Progressive's 5% market share. Progressive has an 11% market share in personal auto and commercial auto, while only 1.4% in homeowners, and less than 1% in commercial. Progressive has historically grown premiums at double digits levels, meaningfully higher than an industry growing closer to GDP growth. We also believe that the direct sales model (principally used by Progressive and GEICO) can continue to take market share from the more traditional insurance agent sold model for years to come as consumers have become more comfortable buying direct. The stock had pulled back recently on competitor price cuts and higher than expected loss severities in personal and commercial auto lines. While pricing may continue to be choppy in the short run, we believe that we're closer to a point where peers acknowledge higher loss severities and change course. Consequently, we feel that the valuation of around 13x this year's earnings provided us with an attractive risk reward and a solid entry point for a long term holding. The stock also compliments Core Equity's existing holdings in the financial sector, and makes the overall Strategy more defensive. Progressive has been a fantastic compounding business model for decades and we think it can have a home in the strategy for many years to come.

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 of predicting where the market is heading in the short or intermediate term. It is a very difficult, if not impossible, task to add value via 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 good secular growth prospects, strong economic moats, underleveraged balance sheets, and superior management teams. These are companies we believe can compound value for shareholders for years into the future. The opportunities to find high-quality growth companies selling at attractive valuations is not abundant, but we will continue to use our "bottom-up" search to optimize the Strategy. We currently have a modest amount of cash to put to work and 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 into perspective. It's easy to get drawn into the daily media headlines that seem to be nothing but negative, but when we step back and take a longer view, 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

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 do 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 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. 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. 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.

Core Equity

RMB Asset Management

Core Equity 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, 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 Core Equity 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 maintains a complete list and description of composites, which are also available upon request.

Description | The Core Equity Strategy (formerly named All Cap GARP-growth at a reasonable price) reflects the performance of fully discretionary equity accounts, which have an investment objective of long-term growth using a portfolio of primarily small-, mid-, and large-cap stocks and for comparison purposes is measured against the Russell 3000 and S&P 500 indices. The Core Equity Composite was created on April 1, 2005. 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 (%)	Russell 3000 (%)	S&P 500 (%)	Composite 3-YR ST DEV* (%)	Russell 3000 3-YR ST DEV (%)	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets
2018	4,196.9	382.9	697	-1.81	-2.28	-5.24	-4.38	13.03	11.18	10.80	0.04
2017	3,610.6	356.8	625	23.48	22.88	21.13	21.83	12.41	10.09	9.92	0.04
2016	3,047.5	307.5	621	13.88	13.31	12.74	11.96	13.56	10.88	10.59	0.04
2015	3,706.0	298.2	666	-4.60	-5.07	0.48	1.38	12.77	10.56	10.47	0.03
2014	3,312.9	368.3	748	6.44	5.92	12.56	13.69	10.96	9.29	8.97	0.03
2013	3,248.5	372.1	734	31.78	31.14	33.55	32.39	13.10	12.53	11.94	0.03
2012	2,585.9	318.2	784	17.62	17.03	16.42	16.00	15.61	15.73	15.09	0.02
2011	2,218.0	286.4	774	2.03	1.52	1.03	2.11	18.07	19.35	18.70	0.00
2010	1,881.9	313.8	783	13.44	12.09	16.93	15.06	N/A	N/A	N/A	0.00
2009	1,613.9	298.7	776	24.90	23.35	28.34	26.46	N/A	N/A	N/A	0.00
2008	1,113.6	225.3	787	-33.46	-34.29	-37.31	-37.00	N/A	N/A	N/A	0.00
2007	1,420.6	279.3	746	7.20	5.86	5.14	5.49	N/A	N/A	N/A	0.00
2006	1,070.2	275.4	806	7.99	6.66	15.71	15.79	N/A	N/A	N/A	0.00
2005**	811.9	236.3	677	12.41	11.37	8.51	7.22	N/A	N/A	N/A	0.00

** 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 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 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 84% of composite assets. In addition to a 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 Core Equity Strategy.*

***Comparison with Market Indices** | RMB compares its Composite returns to a variety of market indices such as the Russell 3000 and 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.*

***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.*