Small Cap Core

Portfolio Update: Second Quarter 2020

During the second quarter, the Small Cap Core Equity Composite (the "Strategy") increased +21.25%, net of fees, compared to a +25.42% increase for the Russell 2000 Index. The end of the longest bull market in history was replaced by the shortest bear market in history! The Russell 2000 bounced back in response to an unprecedented six trillion dollars of fiscal and monetary stimulus.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Small Cap Core (Gross)	+21.52%	-10.49%	-4.22%	+6.02%	+6.01%	+11.10%	+10.60%
Small Cap Core (Net)	+21.25%	-10.93%	-5.19%	+4.99%	+4.97%	+10.00%	+9.50%
Russell 2000 Index	+25.42%	-12.98%	-6.63%	+2.01%	+4.29%	+10.50%	+7.28%

Inception date: April 30, 1999. Please see important disclosures at the end of this document. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment.

In terms of fiscal stimulus, Congress passed the two trillion dollar Coronavirus Aid, Relief and Economic Security (CARES) Act for families and businesses hurt by COVID-19. The act provides direct payments of $1200 to individuals, and $350 billion in loans that do not have to be paid back to small businesses to cover payroll and rent. The CARES Act also allows for interest on mortgage obligations to be delayed without penalty, debt relief on existing loans, $500 billion in aid to corporations, and expands coverage of telehealth, for online heath care. In terms of monetary stimulus, the Federal Reserve committed four trillion dollars of monetary support and ramped up lending directly to states, cities, and businesses. It also backstopped the commercial credit market, supporting "riskier bonds" (i.e. bailing out illiquid ETFs and structured credit funds). Six trillion dollars of stimulus ignited a powerful "risk-on" rally, as evidenced by the 435 basis point (bps) decline in credit spreads (BAML), from 1065 to 630. Typically, credit spreads range between 350bps-550bps during an economic expansion.

As expected[1], the risk-on trade drove a "dash for trash," which was a headwind for relative performance, given our higher quality portfolio bias. The portfolio increased +21.52%, gross of fees, lagging the benchmark for the quarter, still leading the benchmark by 249 basis points YTD.

Whether this is really a new bull market or just a bear market rally is hard to say. One could argue since the economy was so strong and the recession was self-induced with lock downs, that the economy should bounce back rigorously, as per the "V" shaped recovery. The new bull market camp can point to several economic statistics that suggest a "V" recovery is playing out. Thus, a short recession justifies a short bear market. Indeed, seven out of ten bull market indicators we monitor register as positive. But one could also argue the improvement in several economic statistics is a result of six trillion dollars in stimulus, which cannot be sustained without eventually destroying the value of the U.S. dollar. Gold is the insurance against a dollar collapse, and gold has been hitting new highs recently.

Regardless of whether this is a bear market rally, a new bull market, or whether the economic recovery is likely to be a V, W, L, U, a square root or Nike swoosh, it is clear that change is upon us. This change relates to how and where we work, the increasingly important integration of technology into all parts of the economy, how we socialize, the delivery of healthcare, and the prioritization of faster, more efficient drug discovery. These changes are leading to faster adoption curves for many technology and healthcare businesses, while accelerating the demise of highly leveraged, less competitive businesses in retail, entertainment, restaurants, and travel. Bankruptcies have started to accelerate, despite the massive credit made available by the Federal Reserve. It is all part of the creative destruction process that drives the economy as businesses and investors re-allocate capital to adapt to the changing needs of society.

[1] See our paper, "The Long-Term Case for High-Quality Portfolios"

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Contributors and Detractors

Small Cap Core SECOND QUARTER 2020 CONTRIBUTION REPORT *Ranked by Basis Point Contribution*		
	Basis Point Contribution	**Return**
Top Contributors		
West Pharmaceutical Services Inc.	+196	+49.35%
Catalent Inc.	+113	+41.10%
Pool Corp.	+109	+38.53%
WPX Energy Inc.	+105	+109.18%
Repligen Corp.	+97	+28.04%
Bottom Detractors		
Brink's Co.	-34	-12.21%
American Financial Group Inc.	-25	-8.91%
Argo Group International Holdings Ltd.	-20	-5.16%
CVB Financial Corp.	-15	-5.65%
Columbia Banking System Inc.	-14	-11.90%

Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Strategy. Holdings listed might not have been held for the full period. To obtain a copy of RMB's calculation methodology and a list of all holdings with contribution analysis, please contact your service team. The data provided is supplemental. Please see important disclosures at the end of this document.

The biggest contributors to performance were mostly companies that will likely continue to benefit from faster adoption curves as a result of the COVID Pandemic. West Pharmaceutical Services Inc. (WST, +49.35%) manufactures packaging and delivery systems for biologics and is a natural monopoly designed into FDA approvals. Catalent Inc. (CTLT, +41.10%) is a contract manufacturing organization (CMO) for drugs, exposed to the movement to increased outsourcing due to more stringent FDA regulations and trends toward more specialized drugs with more complex manufacturing processes. Repligen Corp. (RGEN, +28.04%) is a biopharma pure-play focused on the provision of advanced bioprocessing solutions to the biologic drug development industry. The company is a key provider of protein products central to the monoclonal antibody development process, as well as hardware for upstream and downstream workflows.

WPX Energy Inc. (WPX, +109.18%) is a low-cost oil producer and was a rare portfolio holding that benefitted from the "dash for trash," as oil prices rebounded from -$40/barrel to +$40/barrel and credit spreads dropped with the Fed stimulus.

Pool Corp. (POOL, +38.53%) is a skilled consolidator of pool distributorships and had a very strong quarter. It is also a beneficiary of what are expected to be sustained record low interest rates, and therefore low mortgage rates.

Detractors were mostly concentrated in the financial sector. The central bank crisis playbook is to increase liquidity and lower borrowing costs to zero to stem a potentially massive wave of bankruptcies and credit downgrades to junk (the zombie apocalypse). Thus, the prospect of sustained low interest rates, combined with a flattish yield curve and low loan demand makes it difficult for banks to make money. Two of five detractors were banks who were negatively impacted by low net interest margins and slow loan growth. Banks are as cheap as they were coming out of the Global Financial Crisis, yet the credit risk is a fraction of what it was then. Our thesis that banks would be "part of the solution" this time, by lending to small businesses that need help, has yet to play out, and the overweight to this group going into the quarter detracted from portfolio performance. If the recovery is truly a "V", the valuation gap for banks should start to close. Two insurance companies were detractors as well. Argo Group International Holdings (ARGO, -5.16%) and American Financial Group Inc. (AFG, -8.91%) are insurance companies being impacted by investor concerns regarding potential business interruption liability claims from closings due to COVID-19. Additionally, insurance companies may find it difficult to grow book value in an interest rate environment expected to offer yields below inflation. The only non-financial among the top five detractor list was Brinks Co. (BCO, -12.21%), which securely moves cash from businesses to banks and among banks. It has been skillfully consolidating the industry, but investors are concerned that the market is moving toward a cashless society, and many retailers and small businesses will disappear, thus creating a structural headwind for Brinks. Our current thinking is the market is over-reacting to the near term fears and not giving enough credit for longer-term opportunities and Brinks remains a high conviction idea.

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Portfolio Activity

As mentioned in last quarter's letter, the COVID-19 shock created both new risks and new opportunities. The Strategy is adapting to reflect both. As a reminder, the RMB Research Core Team immediately reviewed current Strategy holdings and our watch list companies and grouped them into four buckets: 1) **The Power-Through Bucket,** 2) **The Recover Quick Bucket** 3) **The Recover Slow Bucket** and 4) **Change Leaders.** We used the upward volatility this quarter to sell companies we believed would be slow to recover, including Wolverine World Wide Inc. (WWW) and Monro Inc. (MNRO), which we believe are two very well managed retailers that, through no fault of their own, we concluded will have a hard time re-accelerating economic returns and growth. We trimmed our holding in fairly valued CVB Financial Corp. (CVBF) and sold Columbia Banking System Inc. (COLB) to reduce our bank overweight, given the flattish yield curve and slow loan growth environment. We harvested huge gains by trimming fairly valued holdings Pool Corp., West Pharmaceutical Services Inc., and Catalent Inc. We reduced Bright Horizons Family Solutions Inc. (BFAM) to reflect our uncertainty as to whether this is a "quick to recover" or "slow to recover" business, since much of its business stems from meeting the needs of parents who work in office buildings and not necessarily from home. Finally, we sold Commvault Systems Inc. (CVLT), as we believe there are more attractive technology companies to own that benefit from faster adoption curves.

We reinvested much of the sale proceeds into more cyclical businesses that we believe have a chance to recover quickly, including Visteon Corp. (VC), Eagle Materials Inc. (EXP), Badger Meter Inc. (BMI), and Brinks Co. We also re-allocated proceeds to companies that we believe are well positioned to benefit from faster adoption curves, including Q2 Holdings Inc. (QTWO), CoresSite Realty Corp. (COR), CareDx Inc. (CDNA) and Five9 Inc. (FIVN). We sold more than we bought, and our cash position increased to nearly 5%, which detracted from performance, but we believe markets will remain volatile and we want to have some dry powder to continue to take advantage of potential market sell-offs related to COVID, economic, and election uncertainties.

While our turnover is typically low, it has been a little higher for the first half of the year, and trades have added 177 basis points of excess return year-to-date.

Outlook

We are big fans of the letters of Howard Marks from Oaktree, so we will borrow from one of his more recent ones where he reminded investors that, "***The ability to deal intelligently with uncertainty is one of the most important skills***."

In our thirty years of investing, we must admit that this is one of the most uncertain moments in our career. We believe our dual diversification portfolio construction process intelligently handles uncertainty by owning just enough high-quality businesses across all industries and lifecycles to handle big, unpredictable shocks, and still outperform over the long term.

While there is always uncertainty, right now it feels like there is a lot more than our standard run-of-the-mill uncertainty around the economy, interest rates, currency, oil, and the geopolitical landscape. What widens the potential outcomes for multiple asset classes is the magnitude of the amount of government intervention, the magnitude of debt and monetary stimulus applied in such a short period of time. The six trillion dollars in additional government support essentially ushered in a new era of policy recommendations such as MMT (Modern Monetary Theory), which proposes deficits do not matter, "universal basic income", which subscribes that all citizens should receive government assistance for basic living needs, and a break in the independence of the Central Bank, as it directly lent to companies and states and bought public market private assets. We are trying to comprehend what the longer-term implications of these crisis policies might be, understand how "temporary" they might be, and how they might affect systematic risk.

No one can predict how much more government intervention may be forthcoming. The government literally mandated a global recession/depression via the lockdowns. Most recently the government mandated that banks could not pay dividends or buy back shares. How will the government deal with a resurgence of COVID or a new strain? More lockdowns? No lockdowns?

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Central banks have never provided this much capital to markets in such a short period of time and they have committed to do "whatever it takes" to keep markets functioning, without regard for potential price distortion or financial asset bubbles. This could cause an equity melt-up, or it could end in tears, or it may thread the needle of just enough capital to bridge the economy to the other side. We just don't know. The Fed does not know. President Trump does not know. Joe Biden does not know. Nobody knows. In the near term, it appears there is more government and fed stimulus on the way, which should support equity valuations, but we suspect there may also be some bouts of fear along the way creating more volatility and opportunity for active managers to add value.

Perhaps the biggest unknown that investors will need to pay attention to is the election in less than five months. Executive compensation, corporate tax rates, as well as banking, environmental, and many other business regulations may be set to dramatically change. Our job as stewards of our client's capital is not to judge the politics but to understand what changes to the rules could mean for winners and losers in the competition for capital. As we mentioned before, our distinctive portfolio construction process is meant to handle the significant amount of economic and political uncertainty that awaits investors, as the pandemic and political uncertainties unfold throughout the rest of this year. We suspect elevated uncertainty may lead to greater volatility in the second half of the year and if the market sells off, we will be ready, just like last time.

We will continue to strive to own great businesses, managed by great business managers who allocate capital in ways that create value for clients, employees, communities and ultimately shareholders. We are grateful to be part of the capital allocation process and are excited about the continued opportunities to add value for our clients.
Thank you for your commitment to the Strategy. Should you have any questions regarding your investment, please do not hesitate to reach out to us.

Sincerely,

Chris Faber
Portfolio Manager

Jeff Madden
Portfolio Manager

Small Cap Core

TOP TEN HOLDINGS AS OF 6/30/20	
Company	**% of Assets**
West Pharmaceutical Services Inc.	3.81%
Pool Corp.	3.16%
EastGroup Properties Inc.	2.91%
Repligen Corp.	2.90%
TriCo Bancshares	2.72%
Fair Isaac Corp.	2.72%
Seacoast Banking Corp. of Florida	2.58%
Catalent Inc.	2.30%
Exponent Inc.	2.16%
Neogen Corp.	2.15%

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

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RMB Asset Management

Small Cap Core 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.

Description | The Small Cap Strategy (formerly named IronBridge Small Cap Core Equity Composite) product reflects the performance of fully discretionary fee-paying equity accounts, which have an investment objective of long-term growth using a portfolio of primarily small-cap stocks and for comparison purposes is measured against the Russell 2000 index. The inception date of the Small Cap Composite is April 30, 1999 and the Composite was created on March 31, 2002. The composite includes small cap equity portfolios invested in undervalued companies as suggested by RMB Capital's proprietary economic return framework, with relatively small market capitalizations (generally under $2.5 billion at the time of initial purchase) and with both growth and value attributes. The composite excludes portfolios that have client-driven restrictions that hinder the investment strategy. Beginning January 1, 2015, the composite excludes portfolios under $2 million. Prior to that date, the composite excluded portfolios under $5 million. Beginning on January 1, 2018, accounts are included in the composite on the first day of the first full month the account is under management. Prior to 2018, an account was included in the Composite on the first day of the first full month following becoming fully invested and an account was 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 2000 (%)	Composite 3-YR ST DEV (%)	Russell 2000 3-YR ST DEV (%)	Composite Dispersion (%)
2019	4,947.90	118.03	<5	28.91	27.57	25.52	13.97	15.71	0.34
2018	4,196.90	117.54	<5	-4.54	-5.40	-11.01	13.52	15.79	0.29
2017	3,610.61	453.90	6	11.70	10.59	14.65	11.58	13.91	0.30
2016	2,833.76	723.21	7	15.06	13.93	21.31	13.20	15.76	0.16
2015	3,230.87	684.92	10	-0.98	-1.97	-4.41	12.61	13.96	0.17
2014	4,796.43	714.83	5	7.46	6.39	4.89	12.01	16.59	0.25
2013	6,201.31	868.35	8	34.58	33.27	38.82	15.56	16.45	0.22
2012	6,022.19	1,077.20	14	14.24	13.12	16.35	18.67	20.20	0.23
2011	6,080.24	1,012.15	17	-2.65	-3.62	-4.16	23.42	24.99	0.17
2010	9,151.98	1,205.67	19	24.47	23.25	26.85	26.19	27.69	0.23
2009	7,415.09	1,106.92	20	25.70	24.27	27.18	23.71	24.84	1.06
2008	3,903.59	946.99	26	-30.64	-31.35	-33.79	18.82	19.85	0.34
2007	4,587.61	1,169.63	24	10.78	9.68	-1.57	13.07	13.16	0.42

* *Effective June 24, 2017 RMB Capital combined with IronBridge Capital Management. Firm AUM prior to 2017 includes only IronBridge assets. Going forward, firm AUM includes the combined assets of RMB Capital and IronBridge Capital. Prior to the combination, IronBridge Capital Management had been independently verified for the periods December 31, 2003 – December 31, 2016.*

Fees | *The standard management fee is 1% of assets annually, which is also our highest applicable fee. Net returns are computed by subtracting the highest applicable fee (1% on an annual basis, or 0.083% monthly) on a monthly basis from the gross composite monthly return, and the resulting monthly net figures are compounded to calculate the annual net return. In 2009, one account in the composite paid a fee higher than the usual highest applicable fee, at 1.16%. That fee level is used to compute the 2009 net figure, which is 24.27%. Actual investment advisory fees incurred by clients may vary. Composite performance is presented on a gross-of-fees and net-of-fees basis and includes the reinvestment of all income. The net returns are reduced by all actual fees and transactions costs incurred. The percent of non-fee paying assets in the composite is 0%. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Prior to 2018, internal dispersion was calculated using the equal weighted standard deviation for the accounts in the Composite the entire year. Risk measures presented are calculated using gross-of-fees performance. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.*

Minimum Value Threshold | *The account minimum in the Small Cap Core product is currently $2 million. Prior to January 1, 2015, the composite excluded portfolios under $5 million.*

Comparison with Market Indices | *RMB compares its Composite returns to a variety of market indices. These indices represent unmanaged portfolios whose characteristics differ from the Composite portfolios; however, they tend to represent the investment environment existing during the time period shown. The returns of the indices do not include any transaction costs, management fees, or other costs. Benchmark returns presented are not covered by the report of* *independent verifiers. The benchmark for the Small Cap Core composite is the Russell 2000 Index, which for comparison purposes is fully invested and includes the reinvestment of income. The Russell 2000 is a subset of the Russell 3000 Index, representing about 8% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 index is an unmanaged index that is designed to measure the small cap segment of the U.S. equity universe. The index does not reflect investment management fees, brokerage commissions, or other expenses associated with investing in equity securities. You cannot invest directly in an index.*

***Other** | Past performance is no guarantee of future performance. Historical rates of return may not be indicative of future rates of return. Individual client performance returns may be different that the composite returns listed.*