Small Cap Focus

Portfolio Update: First Quarter 2020

During the first quarter, the Small Cap Focus Composite (the "Strategy") decreased -24.50% net of fees, compared to a -30.61% decline for the Russell 2000 Index.

The average bear market results in a decline of 41% and lasts approximately 17 months. Perhaps not widely noticed, the Russell 2000 Index has fallen 42% from the beginning of September 2018 to its low on March 18th of this year. One could argue the Russell 2000 has been in a bear market for 18 months. Historically, small companies have led the market into both bear and bull markets. We believe small companies will lead the new bull market when it arrives.

	3 Months	YTD	1 Year	Since Inception
Small Cap Focus (Gross)	-24.39%	-24.39%	-12.16%	+0.01%
Small Cap Focus (Net)	-24.50%	-24.50%	-12.64%	-0.50%
Russell 2000 Index	-30.61%	-30.61%	-23.99%	-10.47%

Inception date: December 31, 2018. Performance for periods of greater than one year is annualized. Data as of March 31, 2020.

The COVID-19 pandemic shock triggered an aggressive response by governments around the world to close all "non-essential" businesses. These actions drove the economy and markets into a severe contraction not seen since the Great Depression. Unemployment immediately spiked as businesses adjusted to an unprecedented demand shock. Estimates of GDP contraction range from -5% to -30% with unemployment potentially increasing to between 10% and 30%. As the economy raced toward a deflationary bust, investors had nowhere to hide but cash, U.S. Treasuries and the highest quality corporate bonds.

In an effort to mitigate another great depression, the Federal Reserve responded by dropping the fed funds rate to 0% and injecting over $2 trillion of liquidity into capital markets to keep them from collapsing under margin calls associated with strategies that invest in less liquid assets like high yield bonds and other esoteric credit products. The Fed also created several new liquidity pools to keep capital markets functioning. Congress and the President passed a $2 trillion stimulus package – "CARES"- to help get cash into the hands of Americans and to make sure there were plenty of loans available to support small businesses and those deemed to be essential to the U.S. military and economic security.

The Strategy performed as expected, outperforming the benchmark during the downdraft. There is an old saying in this business that "you can't eat relative performance," but that depends on your time horizon. True, outperforming a market that is down 31% is not very appetizing in the short term, but it is very important over the long-term, because capital preservation in down markets is critical to the long-term compounding of wealth.

The investment team managing this strategy has lived through five bear markets. Bear markets are part of an important cycle between order and chaos that constantly repeats and improves the human condition. Humans organize into systems that are believed to create order, but inherently have unseen flaws. Order persists until the flaw is exposed and chaos and a bear market follows. People then reorganize to fix the newly exposed flaw in the system in the hopes of creating a new and better order and a bull market follows. And the cycle repeats. Each bear market is scary. Each is different. Each has different causes, but each offers rare opportunities to own great companies at attractive prices, as well as new companies that are in a position to improve the flaws in the old order and make the world a better place.

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Contributors and Detractors

The biggest contributors to performance were mostly companies in the healthcare industry. Tabula Rasa Healthcare Inc. (TRHC, +37.08%) provides a highly valuable service that is aligned with current healthcare trends of moving toward quality of care and away from fee-for-service. Repligen Corp. (RGEN, +4.60%) 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. Further, future growth is independent of the clinical or commercial success of any single drug candidate, it is a "pick and shovel" supplier to the rapidly growing biotech industry.

Catalent Inc.'s (CTLT -7.87%) business mission is to develop, manufacture, and supply products that help people live better, healthier, lives. CTLT is well-positioned as contract manufacturing organization (CMO), exposed to the trend in increased outsourcing due to more stringent FDA regulations and trends toward more specialized drugs with more complex manufacturing. It also a solution to the problem that 90% of drugs Americans consume are currently produced in China and CTLT is likely to benefit from the need to move more manufacturing of drugs back to the U.S.

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FIRST QUARTER 2020 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Tabula Rasa Healthcare Inc.	+41	+37.08%
Catalent Inc.	+23	-7.87%
Neogen Corp.	+15	+3.18%
Repligen Corp.	+15	+4.60%
Fair Isaac Corp.	+9	-18.08%
Bottom Detractors		
Redwood Trust Inc.	-419	-88.60%
WPX Energy Inc.	-197	-77.91%
Acadia Realty Trust	-178	-49.56%
Brink's Co.	-151	-42.57%
American Financial Group Inc.	-117	-36.03%

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.

Detractors were mostly concentrated in the financials and energy sectors. Two of the biggest financial detractors were Redwood Trust Inc. (RWT, -88.60%), and Acadia Realty Trust (AKR, -49.56%). RWT is a mortgage real estate investment trust which we have owned for almost 20 years. The management team is one of the most talented in the industry and is focused on allocating capital across a range of credit opportunity sets from single family home mortgage securitization to the newer commercial apartment rental channel. Their business model broke when mortgage credit markets seized. Then when the CARES act mentioned "forebearance" and referred to mortgage payment relief as well as rental payment relief, the value of their portfolios collapse creating forced margin calls destroying book value and credit risk. We sold. AKR is a retail real estate investment trust and we are less confident that retailers will recover quickly, thus their landlords, who can quickly have credit risk, are vulnerable, so we sold AKR. WPX Energy Inc. (WPX, -77.91%) is a low-cost producer of energy that got caught up in the collapse of energy prices when Russia and Saudi Arabia engaged in an irrational price war. We are underweight energy and are comfortable that WPX has hedged 80% of its oil production out for 12 months at over $50/ barrel. They are cutting capital expenditures and managing cash flow until the price recovers. We are comfortable holding on to WPX through this difficult environment for oil.

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Portfolio Activity

The COVID-19 shock created both new risks and new opportunities. The Strategy is adapting to reflect both. The RMB Research Core Team immediately reviewed current Strategy holdings and our watch list companies and grouped them in to four buckets:

1) **The Power Through Bucket** - companies like West Pharmaceuticals, with such robust business models their cash flows are unlikely to be impacted much by the global economic recession;

2) **The Recover Quick Bucket** - companies negatively impacted by business conditions out of their control, like Pool Corp., but likely to recover quickly when we emerge from this crisis;

3) **The Recover Slow Bucket** - later cycle companies as well as companies potentially impacted in a negative way longer-term, like Acadia Realty Trust;

4) **Change Leaders** - companies likely to benefit from faster adoption curves of new technologies, business models, or products that will meet the changing needs of the economy as we emerge from the crisis like Catalent Inc.

In the **Recover Slow** bucket, we eliminated our positions in Acadia Realty Trust and Redwood Trust Inc. We also eliminated our positions in Tabula Rasa Healthcare, Inc. We added Eagle Materials Inc. to the "Quick to Recover" and topped off a few "Power Through" and "Lead the Change" buckets which include Exponent Inc., Catalent Inc., and Omnicell Inc. The process of making sure the Strategy opportunities are aligned with the team's conviction is ongoing. The greater the market volatility, the greater the opportunities to optimize longer-term alpha opportunities. Turnover is higher this quarter and potentially higher next quarter, but we are excited to position the Strategy to outperform as we prepare for the eventual exit of the bear market.

TOP FIVE HOLDINGS AS OF 3/31/20

Company	% of Assets
West Pharmaceutical Services Inc.	5.03%
Teledyne Technologies Inc.	4.47%
Pool Corp.	4.21%
Fair Isaac Corp.	4.06%
Catalent Inc.	3.80%

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.

Outlook

As we mentioned at the beginning of this letter, every bear market is different. It is impossible to know exactly when we will emerge from the current one, but it seems two important milestones need to be met. First, we need to see a therapeutic treatment and vaccine for COVID-19. We are quite bullish on this milestone being achieved sooner rather than later because of our confidence in business leaders' ability to respond to crisis and our conversations with some of the most knowledgeable leaders in the healthcare industry. Second, we need to see the economy respond to Washington's fiscal and monetary stimulus. We find this much harder to handicap but believe the government will ultimately provide enough stimulus to reboot the global economy.

The market's swift and violent decline has largely priced in a lot of the uncertainty around these two milestones, but if they are not met in a timely way, investors may have to stomach another 20% to 30% decline. The bottom is impossible to predict or time. Investors should start thinking about the upside 5 years from now. Consider that if investors bought at this quarter's low point and had to wait 5 years to reach a new high, the return would be a 12% compound annual growth rate compared to a more certain 0.81% return for a 5 year U.S. Treasury. This will by no means be a straight path, but investors who are willing to be patient will likely feel very smart five years from today – but they have to weather the possibility of feeling stupid at certain points during that five year period. Regardless of exactly when the bear market is over, it is important to think about how emerging from this bear market might be different from the last one. Remember each has different causes, but each offers rare opportunities to own great companies at great prices as well as new companies in a position to improve the flaws in the old order.

The last bear market was caused by a housing bubble of epic proportions built upon new financial products which claimed to conquer risk (credit default swaps). When the flaws of these products became apparent, the bubble burst. Government "fixed" the problem by increasing regulation for banks and re-inflating asset values through Quantitative Easing (QE). Government's "fix" for the banks pushed more capital outside the traditional banking channel into new, less regulated and less transparent shadow banking channels. Central banks "fixed" the capital markets with QE, which basically meant buying debt so credit spreads would fall. QE had its intended effect, which was to inflate the value of all financial assets, thereby removing solvency risks within the global banking system. Order followed until new flaws that were created by the last fixes were exposed.

For active managers, QE was bad because it essentially created "a rising tide lifts all boats" scenario that resulted in high correlations and low dispersion, which meant less "alpha" for active managers. Active managers lost assets to price agnostic and research deficient passive strategies and the passive bubble inflated. QE went on for too long, and created a bubble in most financial assets. The Federal Reserve tried to exit QE in 2018 by "normalizing" interest rates and liquidity, but found it quite difficult to strike the right balance, as investors discovered when stocks experienced significant declines in the fourth quarter of 2018. Enter 2019, when the Fed pivoted on rates and in the fourth quarter aggressively re-engaged in QE to solve the new problem created in the REPO market as a result of tighter bank regulation. Even though the Fed claimed it "was not QE," stocks and bonds responded and exploded to the upside only to give back 7 years of gains in small caps within 3 weeks when the bubble burst!

The current bear market will be attributed to the COVID-19 virus, but we believe COVID-19 was the catalyst that pricked the financial bubble created by 10 years of QE.

How coming out of this bear market is different:

This time, the Fed engaged in as much QE since the start of the COVID-19 pandemic as it did in the entire decade following the global financial crisis, yet the Russell 2000 is still 35% below its peak. QE has lost its ability to inflate asset prices. This time QE will not artificially inflate the market or keep zombie companies alive, but rather will act to provide enough liquidity to keep markets from dislocating as many passive strategies and "structured credit" based funds struggle to sell illiquid assets to meet redemptions. Like last time, credit spreads should narrow, which might be a headwind for higher quality portfolios like ours, but they are not narrowing from 15% like last time. So, the headwind for quality portfolios should be smaller exiting this bear market, and importantly we believe there will likely be a tailwind that did not exist as we exited the last crisis – **reversion to dispersion**.

Since the "rising tide lifts all boats" strategy of QE has lost its effectiveness, there will be winners and losers creating high dispersion. High dispersion creates opportunities for active managers to add value.

Starting with non-ownership of the losers – Zombie companies. The term "zombie company" describes unprofitable companies with very little long term relevance that survive only because capital is available for essentially free. They didn't get capital from banks, as banks remained stingy lenders due to newer capital requirements. Zombie companies got capital from "new" (read flawed) lending vehicles (private credit/structured credit/CLO's etc.) that offered yield-starved investors higher returns. This type of lending occurred outside the traditional banking channel. Unfortunately, a lot of investors will be hurt by a spike in defaults, but we suspect investors' losses will be manageable as the Federal Reserve steps in with special vehicles to buy much of the debt in those products and liquidates it in an orderly way over time, the way they did with mortgages in the last crisis. But the exposure of that flaw suggests that credit availability to zombie companies will likely contract significantly - meaning we may be on the verge of a zombie apocalypse.

Zombie companies will be the losers coming out of the bear market this time whereas they were the winners coming out of the last bear market. There are a lot of zombie companies and passive strategies will own them.

In the Russell 2000 (IWM) around 1/3 of companies report no or negative earnings while nearly half have high credit risk.

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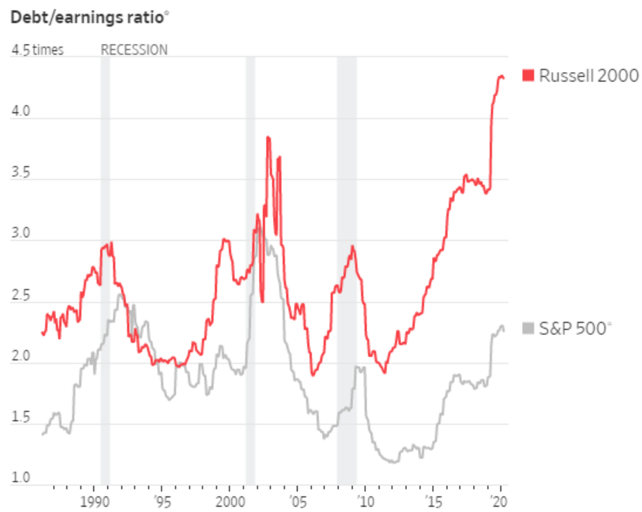
Sources: FactSet; BofA U.S. Equity & U.S. Quant Strategy



*Net debt divided by earnings before interest, taxes, depreciation and amortization
Note: Data excludes financial sector companies.
Sources: FactSet; BofA U.S. Equity & U.S. Quant Strategy

Of course, the more exciting part of the story is the opportunity to own new winners. The crisis should enhance the adoption curves of new technologies, products and treatments that emerge as higher priority economic needs related to remote everything, supply chain optimization, more balanced dependencies among global trading partners, acceleration of medical solutions from vaccines, to tests, to supplies etc. that will have spillover effects for the entire biotech complex, and so many more opportunities it is impossible to include in this short letter.

The RMB Research Core Team is currently sorting through 20 years of research on our proprietary research platform, engaged in about 12 management calls a day, connecting dots and sorting potential winners and losers. Volatile markets create opportunities to adapt the Strategy in an efficient way to exploit price agnostic passive flows by using upward volatility to sell companies that might fall into the "loser" bucket, and using downward volatility to buy companies that we have followed for a long time that fall into the "winner" bucket. In other words, we believe it has never been a better environment for active management to add value than now. Bear markets are a painful but necessary part of the capital allocation process, punishing poor stewards and rewarding good stewards of capital, thereby strengthening the system. 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

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RMB Asset Management

Small Cap Focus 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 Focus Strategy 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 Focus Composite is December 31, 2018. 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. An account is included in the Composite on the first day of the first full month following becoming fully invested. 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 2000 (%)	Composite 3-YR ST DEV (%)	Russell 2000 3-YR ST DEV (%)	Composite Dispersion (%)
2018	4,196.9	--	--	--	--	-11.01	N/A	N/A	N/A

Fees | *The standard management fee is 0.500% of assets on the first $1.0 million, 0.500% on the next $2.0 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. 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 are reduced by the portion of bundled fee that includes trading costs and all fees other than portfolio management. The net returns are reduced by all actual fees and transactions costs incurred. The percent of non-fee paying assets in the composite as of December 31, 2018 was 0%. 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 Small Cap Focus Composite.*

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. 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.*

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Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The opinions and analyses expressed in this letter are based on RMB Capital Management, LLC's ("RMB Capital") research and professional experience, and are expressed as of the date of our mailing of this letter. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future performance, nor is it intended to speak to any future time periods. RMB Capital makes no warranty or representation, express or implied, nor does RMB Capital accept any liability, with respect to the information and data set forth herein, and RMB Capital specifically disclaims any duty to update any of the information and data contained in this letter. The information and data in this letter does not constitute legal, tax, accounting, investment, or other professional advice. The information provided in this letter should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the Strategy at the time you receive this letter or that securities sold have not been repurchased. The securities discussed do not represent the entire Strategy and in the aggregate may represent only a small percentage of their holdings. It should not be assumed that any securities transaction or holding discussed was or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of security recommendations made during the past 12 months is available upon request. An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not account for fees, taxes, or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by your account. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest U.S. equity securities in the Russell 3000 Index, based on a combination of market capitalization and current index membership. The Russell 2000 Index represents approximately 10% of the total market capitalization of the Russell 3000 Index. 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.