Small Cap Focus

Portfolio Update: Second Quarter 2020

During the second quarter, the Small Cap Focus Composite (the "Strategy") increased +20.38%, 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	Since Inception
Small Cap Focus (Gross)	+20.54%	-8.87%	-1.05%	+13.29%
Small Cap Focus (Net)	+20.38%	-9.11%	-1.57%	+12.71%
Russell 2000 Index	+25.42%	-12.98%	-6.63%	+6.08%

Inception date: December 31, 2018. Performance for periods of greater than one year is annualized. Data as of June 30, 2020.

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 Strategy increased +20.54%, gross of fees, lagging the benchmark for the quarter, still leading the benchmark by 411 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"

Small Cap Focus

Contributors and Detractors

Small Cap Focus SECOND QUARTER 2020 CONTRIBUTION REPORT *Ranked by Basis Point Contribution*	Basis Point Contribution	Return
Top Contributors		
West Pharmaceutical Services Inc.	+249	+49.60%
Chart Industries Inc.	+186	+69.79%
Catalent Inc	+178	+41.66%
WPX Energy Inc.	+144	+109.73%
Fair Isaac Corp.	+135	+33.65%
Bottom Detractors		
The Brink's Co.	-40	-11.79%
American Financial Group Inc.	-29	-9.40%
CVB Financial Corp.	-17	-5.62%
Argo Group International Holdings Ltd.	-10	-4.74%
Curtiss-Wright Corp.	-3	-3.34%

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.

Two of 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, +49.60%) manufactures packaging and delivery systems for biologics and is a natural monopoly designed into FDA approvals. Catalent Inc. (CTLT, +41.66%) 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.

WPX Energy Inc. (WPX, +109.73%) 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.

Detractors were mostly concentrated in the financial sector. Two of five detractors were insurance companies, Argo Group International Holdings Ltd. (ARGO, -4.74%) and American Financial Group Inc. (AFG, -9.40%) who were negatively 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. CVB Financial Corp. (CVBF, -5.62%) is a bank 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" to this crisis, by lending to small businesses that need help, has yet to play out. The Brinks Co. (BCO, -11.79%), which securely moves cash from businesses to banks and among banks. It has been skillfully consolidating the industry, but investors believe 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.

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 harvested huge gains by trimming fairly valued holdings that would be classified as "growth" stocks. We trimmed Pool Corp. (POOL), West Pharmaceutical Services Inc., Fair Isaac Corp. (FICO), and Catalent Inc. We also 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.

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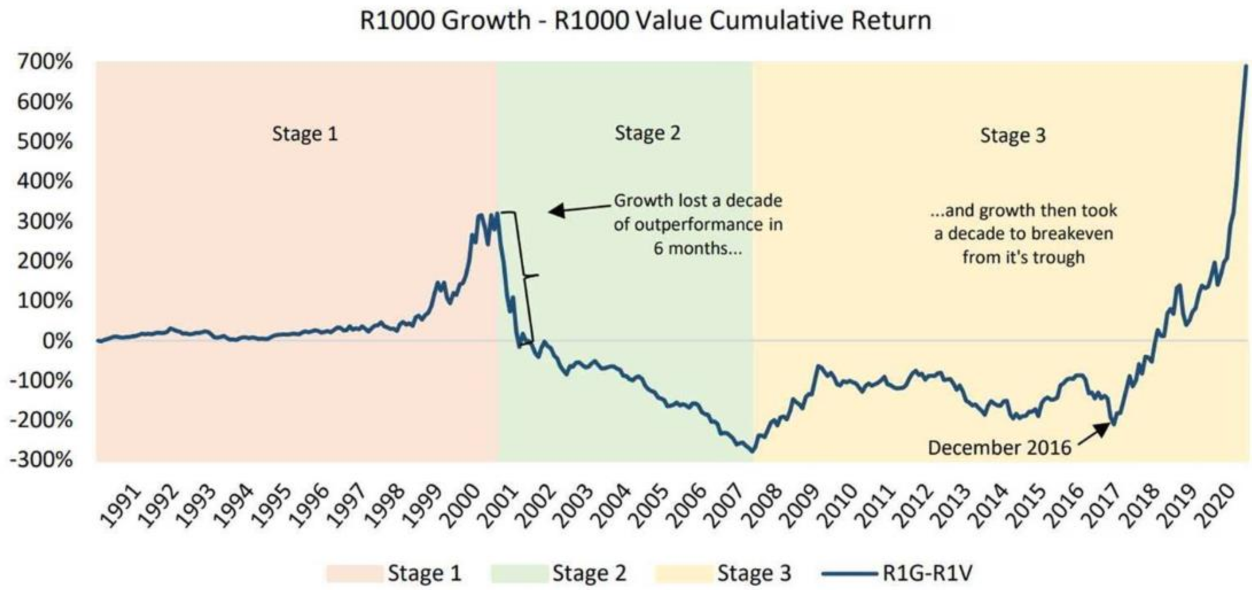
As a reminder to investors, the small cap focus strategy is a "core" strategy, which means it is diversified across both "growth" and "value" stocks. Our own valuation work is confirming that valuation for growth stocks are a bit stretched. Chart A. below would also suggest that the growth relative to value cycle is a bit extended.

Chart A



Source: Kailash Capital, Compustat, Russell; Data from 12/31/1989-6/30/2020

We reinvested much of the sale proceeds into more "value" names such as cyclical businesses that we believe have a chance to recover quickly, including Visteon Corp. (VC), Eagle Materials Inc. (EXP), , The Brink's Co. and Argo Group International Holdings Ltd.. We also re-allocated proceeds to companies that we believe are well positioned to benefit from faster adoption curves, including Five9 Inc. (FIVN) and Monolithic Power Systems Inc. (MPWR). We sold more than we bought, and our cash position increased to around 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.

TOP FIVE HOLDINGS AS OF 6/30/20

Company	% of Assets
West Pharmaceutical Services Inc.	4.02%
Teledyne Technologies Inc.	3.90%
Chart Industries Inc.	3.79%
Fair Isaac Corp.	3.68%
EastGroup Properties Inc.	3.64%

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

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***."

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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? 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

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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 (%)
2019	4,947.9	97.96	253	32.23	31.57	25.52	N/A	N/A	1.21
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. 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 | *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 Equity 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.*

Small Cap Focus

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.