Special Situations

Portfolio Update: 2020

For the year 2020, the Special Situations Strategy (the "Strategy") increased +32.45% gross of fees (+31.03% net of fees), outperforming the +19.96% return for the Russell 2000 and +18.40% total return for the broader large cap S&P 500 index. As long-term investors, we tend to think of the investment horizon over multiple years, not quarters, which is why we are moving to an annual letter instead of four quarterly letters.

The big picture story on the outperformance this year was two-fold. First, we had a healthy level of cash to deploy when the market declined significantly at the onset of the pandemic and we aggressively put it to work. We will discuss individual holdings impact on performance in a bit, but many of our biggest contributors were names that we picked up at bargain prices during the dramatic first quarter sell off. Second, we did a reasonably good job of avoiding big losers that cumulatively were large enough to offset the big winners. Special Situations has always been about opportunistically identifying individual securities with asymmetric risk/reward opportunities and we're pleased with how the full year played out. That said, an expensive market and lower volatility has made it more difficult to find new ideas. We've done some selective selling and once again ended the year with relatively high levels of overall cash. This is not a market timing call, it's reflective of us finding fewer attractive bottom-up opportunities.

	Q1	Q2	Q3	Q4	1 Year	3 Years	5 Years	10 Years	Since Inception
Special Situations	-24.04%	+31.55%	+0.80%	+30.10%	+31.03%	+8.59%	+11.37%	+10.18%	+13.02%
Russell 2000 Index	-30.61%	+25.42%	+4.93%	+31.37%	+19.96%	+10.25%	+13.26%	+11.20%	+12.54%
S&P 500 Index	-19.60%	+20.54%	+8.93%	+12.15%	+18.40%	+14.18%	+15.22%	+13.88%	+13.99%

Inception date: April 30, 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.

2020….what a year. It's hard to say that we can write anything that hasn't already been written to describe a most unusual year. The year started with a very healthy economy that was quickly upended by the global pandemic that brought economic collapse and a global health emergency. Behavioral finance bias teaches us that unexpected, outlier events like 2020 happen more often than the human mind's probability analysis comprehends. Hopefully, we'll learn lessons from the pandemic and be better prepared for future health threats. The dichotomy between what was going on in the real economy and how the stock market reacted over the course of the year is also confirmation that the economy and stock market are two separate animals and, at times, aren't even positively correlated. The initial market selloff in February and March was staggering in its speed and depth from peak to trough. Bottoming on March 23rd, the rebound and subsequent rally over the course of the year was equally surprising in its speed and magnitude. None of us in March thought the market could finish the year with positive returns well into the double digits, but it did. The market was clearly rescued by the unprecedented support of monetary policy from the Fed and fiscal policy from the U.S. Government. The "whatever it takes" mantra to get the country through the pandemic, along with remarkable progress on producing a highly efficacious vaccine, supported the market's rebound and astounding full year returns. The market also found solace in the outcome of the U.S. election in November that showed that most of the country remains quite centrist on policy issues, despite the polarization of Washington DC to the left and right extremes. Capitalism is by no means perfect, but it seems like most of the electorate doesn't want their central government to be overly controlling of their economic or personal lives. No matter your political leanings, we're hopeful the new year brings better leadership, sound economic policy, and greater overall stability. Corporate leadership has been quite vocal that they just want fewer outside surprises, as they lead their companies and plan for the future.

As we close the books on a most tumultuous year, we think there is a strong case for optimism that the economy will improve significantly in 2021, once the health crisis subsides. With COVID cases, hospitalizations, and deaths still rising at alarming rates, the distribution of the vaccine cannot come quickly enough. This was not your normal recession and the pace of the economic recovery will parallel the success in ending the health crisis. There is a strong case for optimism, as the population becomes vaccinated and more reopening commences. Consumer savings rates have been high during the recession and could unleash strong spending, particularly for consumer services once we reach the midpoint of the year. Additional stimulus programs from the government are helping bridge the gap and hopefully employment growth will be strong once spring comes.

The stock market is a powerful forward-discounting mechanism and has priced in an optimistic recovery scenario. Historically high valuations reflect this expected corporate earnings recovery in 2021 and 2022 and for interest rates to remain extremely low. The 10 Year Treasury was already quite low at the beginning of the year at 1.92%, but fell even further, with the onset of the pandemic and Fed rate cuts, ending the year at 0.92%. While we are not a believer that we will see negative rates in the U.S., much of the worlds developed markets do and, at 1%, we do have a negative real interest rate when adjusting for inflation. The massive government stimulus programs that have blown the Federal deficit into the trillions (yes, that's trillions plural!) and printing of dollars by the Fed do leave us with concerns about inflation in the future. While this may not be a 2021 event as the economy recovers, we are on the lookout for signs of emerging inflation. The Fed has promised to keep interest rates unchanged even if inflation exceeds 2%, so there is a possibility that the Fed could get behind the curve at some point in the next couple of years. In our opinion, equity market valuations are pricing in low interest rates for many years into the future, so upward pressure on rates would not be good for stocks. As bottom-up equity investors, we always have some hesitation to opine on "the market" as it's one homogenous thing, as we believe in the mantra of "a market of stocks, not a stock market". Our bottom-up process confirms this expensive market, as we are not finding bargains in individual companies to be abundant. That said, as opportunistic investors in individual securities, we continue to look for dislocations.

Contributors and Detractors

The accompanying chart shows the Strategy's largest contributors and detractors to performance during the year. The largest contributor was Exact Sciences Corp. (EXAS, +224.79), a cancer diagnostic company best known for its Cologuard colon cancer screening test. We aggressively purchased the stock in March, after it declined significantly during the market selloff, making the bet that diagnostic testing would only be temporarily impacted by the pandemic. This proved to be true as the year played out, as Cologuard tests rebounded and Exact even picked up some COVID testing business. We did take some gains in the stock, but it remains the Strategy's fifth largest position at year end. Digimarc Corp. (DMRC, +293.88%), a provider of digital watermarking services, was bought as a deep value play in early April. We felt that the pandemic could prove somewhat disruptive, but the stock was selling well below the private value of Digimarc's proprietary technology and patent portfolio. Our thesis was validated when an outside, well-respected investor took a large stake in the company, which drove up the stock price in the fourth quarter. We trimmed back our position size, although the stock remains our seventh largest position at year end. PayPal Holdings Inc. (PYPL, +112.71%), the digital payments platform, was the third largest contributor. We've owned PayPal for a few years now, after it was spun-off from Ebay, on the thesis that it would thrive under its own independence. The pandemic proved to be an accelerator of the use of PayPal, as the use of

Core Equity
2020 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Exact Sciences Corp.	+964	+224.79%
Digimarc Corp.	+824	+293.88%
PayPal Holdings Inc.	+576	+112.71%
Lamar Advertising Co.	+497	+80.42%
Marvell Technology Group Ltd.	+465	+78.08%
Bottom Detractors		
Raytheon Technologies Corp. / United Technologies	-313	-30.45%
Kinder Morgan Inc.	-284	-31.43%
Royal Caribbean Group	-257	-40.96%
Macquarie Infrastructure Corp.	-246	-24.03%
Argo Group International Holdings Ltd.	-244	-32.46%

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 Portfolio. 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.

ecommerce increased tremendously, and the stock responded appropriately. We still like the long-term outlook for the company, and it is the Strategy's largest holding at year end.

On the negative side of the performance ledger, we had several names that detracted from performance in 2020. Leading the way is aerospace and defense supplier, Raytheon Technologies Corp. (RTX, -30.45%). We owned United Technologies (UTX) on the thesis that the sum of its parts was greater than the whole, as it was being broken into three companies with Carrier Global Corp. (CARR) and Otis Worldwide Corp. (OTIS) being spun off, and the aerospace component of United merging with Raytheon to form RTX. In what might go down as the worst luck in history for the timing of a transformative acquisition, Raytheon closed its merger with United Technology's commercial aerospace business at the beginning of 2020, just as the pandemic was about to hammer the growth potential for the commercial aerospace business, which it was getting from United. As we all know, airlines have been one of the most highly impacted industries from the pandemic, as commercial traffic collapsed. The need for new airplanes, replacement engines, and the underlying health of the customer base to even make purchases has been decimated. While there is a bull case for longer-term recovery of the industry, it will take years to get back to what 2019 looked like. We sold our position in the newly formed Raytheon in late April, after the stock bounced and also exited our inherited positions in Carrier and Otis. In hindsight, our timing on the sales of Raytheon proved to be decent, but Otis and Carrier performed quite well after our exit. Oil and gas pipeline and infrastructure provider Kinder Morgan Inc. (KMI, -31.43%) was the second largest detractor to performance. Energy markets were already struggling from excess global supply and lackluster demand prior to the onset of the pandemic, commodity prices collapsed, as the economy shut down in the second quarter. Market prices did recover some in the back half of the year, as reopening optimism grew, and OPEC showed that it still has some relevance in impacting global commodity prices. We still believe Kinder owns a collection of irreplaceable assets and the worst downside risk from commodity prices has passed. The shares should continue to be supported by a very attractive 7% dividend and we continue to own the name at year end, but at a low weighting.

Portfolio Activity

During the year, the Strategy purchased seven new names that are still held at year end, six names that were bought and sold intra year, and nine names that were bought in previous years and exited during 2020. This is fairly consistent with historical turnover levels, although turnover has varied quite a bit over the history of the strategy. The names that we purchased and continue to own are Marathon Petroleum Corp. (MPC), Digimarc Corp. (DMRC), Under Armour Inc. (UAA), Exact Sciences Corp. (EXAS), Brink's Co. (BCO), Dollar Tree Inc. (DLTR), and Citigroup Inc. (C). The names that we purchased or inherited through a spin-off, but no longer own at year end, include Otis Worldwide Corp. (OTIS), Carrier Global Corp. (CARR), Lamar Advertising Co. (LAMR), Fox Factory Holding Corp. (FOXF), Weyerhaeuser Co. (WY), and Cypress Semiconductor (CY). The names that we owned at the beginning of the year and exited include Macquarie Infrastructure Corp. (MIC), Viper Energy Partners LP (VNOM), Six Flags Entertainment Corp. (SIX), Prestige Consumer Healthcare Inc. (PBH), Masco Corp. (MAS), United Technologies/Raytheon Technologies Corp. (RTX), Tiffany & Co. (TIF), Royal Caribbean Group (RCL), and E*TRADE Financial Corp. (ETFC).

TOP 10 HOLDINGS AS OF 12/31/20

Company	% of Assets
PayPal Holdings Inc.	6.76%
Brink's Co.	6.50%
Verra Mobility Corp.	5.72%
Ameris Bancorp	5.49%
Exact Sciences Corp.	5.36%
Marvell Technology Group Ltd.	5.35%
Digimarc Corp.	5.32%
Ingersoll Rand Inc.	4.82%
Marathon Petroleum Corp.	4.73%
Dollar Tree Inc.	4.66%

Holdings are subject to change. Portfolio 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.

For the purposes of this letter, we'll give you a high-level overview on the seven new names that are still owned at year end that we have not already touched on. Oil refiner Marathon Petroleum Corp. was purchased as a deep value name that had a well-known activist investor advocating for change. After our purchase, Marathon announced that it would sell its Speedway chain of gas stations to become more of a pure play refiner. We think this is a strong step to improving shareholder value, given the opportunity to de-lever the balance sheet with proceeds. This will shift the focus of management to primarily improving the margins of the core refinery business that should also benefit in from the economy reopening and a corresponding increase in energy consumption. Athletic wear maker Under Armour Inc. was purchased as a longer-term turnaround play. We believe that the brand still has a lot of cache and like the steps the CEO has taken to improve profitability and focus on profitable growth. Armored car and cash management service provider Brink's Co. was purchased as a deep value name in which the market had overly punished the stock in the short run. While the pandemic has impacted the need for its services in 2020, we believe that the use of physical cash is not going away, and Brinks will have a viable business for years to come. We believe management has done a good job to protect margins in the near term and are encouraged by signs that revenues are starting to recover. Dollar store operator Dollar Tree Inc. was purchased as a longer-term turnaround name. The company has struggled with consistency in its results since its purchase of Family Dollar a few years ago, but, under new management, has started to show improvement in sales and margins. We think these efforts have runway and, with better fundamentals, the stock can re-rate higher over time. Citigroup Inc. was purchased in March as a deep value name in a sector that had been hard hit during the worst of the market sell off. Citi had been executing an internal turnaround reasonably well in the few years before our purchase and we think these "self-help" initiatives still have more to go. While the stock has recovered substantially, we think there is additional upside, particularly if the yield curve continues to steepen.

Concluding Outlook

U.S. corporate earnings growth, which is the biggest long-term driver of stock prices, was impacted significantly in 2020 by the pandemic and recession. That said, earnings proved to be considerably more resilient than one might have thought nine months ago and the recovery in 2021 and 2022 looks to be very strong. It's possible that 2021 earnings recover or potentially even exceed 2019 pre-recession levels this year. It's clear the market has reacted to the bullish recovery case and priced in an optimistic scenario. 2019's +31% market return was nearly all due to P/E multiple inflation and with earnings declining in 2020, it's happened again as the multiple inflated further. Today the market is trading at 22.7x 2021 and 19.5x 2022 current earnings estimates versus a very long-term average around 16x. Even when accounting for low interest rates, which lowers discount rates and inflates P/E multiples, this is towards the top of historical valuation metrics. We also note that there are some signs of bubblish type behavior in the valuations of in some of the growthiest, more speculative parts of the stock market and recent IPO's. As grizzled veterans, we can't help but recall the TMT (tech, media, telecom) fueled boom of the late 1990's when individual investors piled into highly speculative stocks. While we don't think we're quite to "mania" levels today, we all remember how the 90's ended.

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's a very difficult, if not impossible, task to add value by timing the market. We think it's prudent to keep return expectations modest for the next few years, as longer-term returns are likely to be lower than what we've enjoyed over the past several years. We continue to focus the Strategy's efforts on owning individual securities that have dislocated prices and good risk-reward characteristics. Our cash levels are currently high once again, as opportunities have become less abundant, but we will continue to use our "bottom-up" search to optimize the Strategy. If we do our jobs well by adhering to a disciplined investment process and managing Strategy risk, we aim to continue to add value to market returns in subsequent years. We'd like to wish everyone a happy new year with hope that 2021 will be a much better 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 M Griesbach

Todd Griesbach
Portfolio Manager

Special Situations

RMB Asset Management
Special Situations Strategy // 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 was 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, 2019. Verification assesses whether: (1) the firm has complied with all the composite construction are 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 Special Situations composite has been examined for the period of April 1, 2005 through December 31, 2015. The verification report and performance examination are available upon request. RMB AM maintains a complete list and description of composites, which are also available upon request.

Description | The Special Situations Strategy reflects the performance of fully discretionary equity accounts and is designed to capitalize on stock market inefficiencies in addition to conventional buy-and-hold strategies. "Special Situations" are defined as those that have extraordinarily favorable risk/reward characteristics and, for comparison purposes, are measured against the Russell 2000 and S&P 500 indices. The Special Situations Strategy Composite was created on January 1, 2010 and includes all accounts that are managed in accordance with the Special Situations investment strategy. The strategy evolved from a Small-Cap Investment Strategy which began January 1, 2008 and became the Special Situations Strategy on January 1, 2010. 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 2000 (%)	S&P 500 (%)	Composite 3-YR ST DEV* (%)	Russell 2000 3-YR ST DEV (%)	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets	Composite Dispersion (%)
2019	4,947.9	37.2	88	31.95	30.52	25.52	31.49	16.66	15.71	11.93	0.27	1.13
2018	4,196.9	43.3	143	-24.29	-25.14	-11.01	-4.38	16.39	15.79	10.80	1.45	0.57
2017	3,610.6	90.0	214	18.66	17.33	14.65	21.83	13.46	13.91	9.92	1.45	1.01
2016	3,047.5	76.5	206	15.44	14.07	21.31	11.96	15.84	15.76	10.59	0.15	0.87
2015	3,706.0	56.4	192	8.87	7.65	-4.41	1.38	13.74	13.96	10.47	0.17	0.62
2014	3,312.9	76.5	237	-4.95	-6.00	4.89	13.69	14.09	13.12	8.97	0.12	0.96
2013	3,248.5	89.8	259	21.77	20.40	38.82	32.39	15.74	16.45	11.94	0.20	0.81
2012	2,585.9	42.2	141	20.95	19.61	16.35	16.00	19.45	20.20	15.09	0.19	1.17
2011	2,218.0	27.5	80	6.05	5.60	-4.18	2.11	N/A	N/A	N/A	0	N/A
2010	1,881.9	0.2	2**	47.16	45.71	26.86	15.06	N/A	N/A	N/A	0	N/A

***Fees** | Effective January 1, 2011, RMB' Capital's asset management fee schedule for this Composite is as follows: 1.25% on the first $250,000 in assets: 1.125% on next $750,000; 1.00% on next $2.0 million; 0.9% on next $2.0 million; 0.8% on next $5.0 million; 0.75% on next $15 million. Actual asset 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 72% of composite assets. In addition to an asset 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. 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 Special Situations Strategy.*

***Comparison with Market Indices** | RMB compares its Composite returns to a variety of market indices such as the Russell 2000 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. An investment cannot be made directly in an index. The returns of the indices 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.*

Special Situations

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 Portfolio at the time you receive this letter or that securities sold have not been repurchased. The securities discussed do not represent the entire Portfolio 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.