

Investment THE VOICE OF INDEPENDENTS ADVISOR

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2021 Asset Managers and Strategist of the Year Awards

Small/Mid Cap Asset Manager of the Year

RMB Asset Management

RMB SMID Cap Core Managed Account/RMB SMID Cap Fund

RMB Asset Management's SMID Cap Core Managed Account/RMB SMID Cap Fund is a winner of the 2020 Envestnet/Investment Advisor Manager of the Year award for its category out of 200 largely due to its ability to adapt quickly to the volatile market conditions caused by the pandemic.

Despite all that volatility, the strategy outperformed its benchmark Russell 2500 Index by 578 basis points last year (25.77% vs. 19.99%), Envestnet analysts said. The investment team at RMB accomplished that while sticking to the same investment philosophy since the strategy's inception at IronBridge Capital Management before the firms merged in 2017.

For Jeffrey Madden, co-portfolio manager, one key to the RMB strategy's success last year was that the investment team was prepared.

"Every once in a while, the stock market, being a complex system, has market-clearing events, which was certainly the case in March" last year, he says.

But the RMB team was prepared with what are traditionally called growth stocks and what the firm calls "Rockets" (high-growth early stage companies with innovative new products, services or business processes) and "Golden Goodies" (Rockets that have survived and have long-term business models, while tending to grow faster than the overall market), Madden explains.

Another reason the strategy did so well was the "deployment of capital in the springtime of 2020 into what traditionally people call value businesses [and] what we would call 'corks' — companies that have economic returns close to the equity discount rate," he says. "Those businesses were priced for a long recession, if not depression, and I'm talking about, specifically, commercial banks and material companies."

For Chris Faber, co-portfolio manager, the strategy's success comes down to the team's investment philosophy.



Jeffrey Madden

Title: Co-portfolio manager

Years with present firm: Four (since RMB merged with IronBridge Capital)

Years in financial services: 20 (all with IronBridge)

Investment/asset class focus: SMID

Asset management firm: RMB Asset Management

Firm's headquarters: Chicago

Year firm was founded: 2005

Number of employees: 59, including 9 partners

AUM as of Dec. 31, 2020: \$3.5 billion

"The key in it to me is what we call our Life Cycle approach to investing," Faber says. "What that basically means is our analytical team is trained to look at the market as a place where the competition for capital is a violent place, and companies are constantly progressing through a life cycle of development, growth, maturity and decline. And our job is to identify the winners in the competition for capital and avoid the losers," he explains.

One important factor is that the "path of wealth creation is slightly different and unique depending on where a company is in its life cycle," according to Faber, who says that "triggers key questions that our team seeks to answer to get a unique perspective on long-term value creation and valuation." The portfolio owns stock in companies "across the entire life cycle," from speculative growth to deep value, he says.

"What's unique about how we apply that to investing in a company is that we built a proprietary value creation framework focused on how companies allocate capital, depending on what life cycle they're in," Faber says. "When we define capital, we talk about not just physical capital in the traditional accounting sense, but also human capital and intangible capital."

The team has not done much tweaking of its portfolio in recent months. "Our portfolio generally has pretty low turnover," Faber says. "However, at the margin, we've recognized that risks of inflation are increasing and we've bought companies that would do well in that kind of environment," including PotlatchDeltic and Royal Gold, he said.

Looking ahead to the next 12 to 18 months, Madden says, "One thing that we're observing is higher dispersion in the market, going back to the depths of the bear market in March of 2020 to today ... which is good for active managers so long as you are right on the businesses that you own." —Jeff Berman