

# SMID Cap Core

## Portfolio Update: Third Quarter 2022

During the third quarter ending September 30, 2022, the SMID Cap Core Equity Composite (the "Strategy") returned -2.13%, gross of fees (-2.30%, net of fees), compared to the -2.82% return for the Russell 2500<sup>®</sup> Index.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
SMID Cap Core (Gross)	-2.13%	-24.75%	-18.25%	+9.41%	+10.16%	+11.15%	+9.26%
SMID Cap Core (Net)	-2.30%	-25.15%	-18.81%	+8.63%	+9.33%	+10.24%	+8.33%
Russell 2500 <sup>®</sup> Index	-2.82%	-24.01%	-21.11%	+5.36%	+5.45%	+9.58%	+8.15%

*Inception date: March 31, 2004. 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. Data as of September 30, 2022. RMB Capital acquired the composite by combining with IronBridge Capital Management on June 24, 2017. Composite performance prior to that date was achieved by IronBridge Capital Management.*

The quarter witnessed extreme volatility as the Russell 2500<sup>®</sup> Index increased 17% from July through mid-August, only to give it all back and then some through September. The rally was sparked by better-than-expected inflation data and solid corporate earnings. It was extinguished by Fed Chairman Powell's Jackson Hole comments that stated, "inflation was still too high", and "the Fed will accept some pain to households and businesses to get it under control." Then the Fed followed up hawkish rhetoric with another 75bp increase to the Fed Funds rate. These actions raised concerns that a deep recession will be the path to 2% inflation.

For the third quarter in a row, portfolio holdings reported mostly solid fundamental quarters and outlooks, but macro fears of higher interest rates, tighter liquidity conditions, slower economic growth, and increased odds of a recession over the next 12 months trumped solid fundamentals. Forward looking investors understand that earnings typically contract 20% during recessions and that analysts and companies are typically behind the curve. Often, stock prices fall in advance of negative earnings revisions. Fear of earnings contraction was greatest among industries related to housing as mortgage rates shot up from all-time lows of 2.65% at the start of 2021 to 6.70% on September 30!<sup>1</sup> Single Family Housing Permits declined a seasonally adjusted 15.3% year-over-year.<sup>2</sup> Many housing related businesses underperformed despite strong quarterly results and now appear priced for a recession. Energy and Aerospace businesses held up relatively better reflecting earnings acceleration/resilience due to geopolitical risk associated with the Ukraine war.

While the equity market is beginning to price a recession, the credit market appears more sanguine. Credit spreads have increased from historical lows of 3.77% to 5.74%, which is slightly above the long-term average of 5.36%, but well below recessionary levels that typically reach 10%.<sup>3</sup> We suspect this contradiction to get resolved either through a surge in the equity market if the Fed engineers a soft landing while taming inflation, or a widening of credit spreads as the recession deepens.

<sup>1</sup> Source: Factset.

<sup>2</sup> Source: <https://www.census.gov/construction/nrc/pdf/newresconst.pdf>

<sup>3</sup> Source: ICE BofA Single-B U.S. High Yield Index Option-Adjusted Spread



# SMID Cap Core

## Contributors and Detractors

Contributors were generally higher quality businesses that continued to demonstrate the robustness of their business models, adaptability, and operating skill, where market expectations had become too pessimistic.

STORE Capital Corp. (STOR, +23.45%) focuses on investment and management of single tenant operational real estate. It is invested across diverse end markets, but some better-known examples are Bass Pro Shops, Fleet Farm, and AMC Theaters. Its lease structures tend to be longer-term, which is good for producing fairly bond-like revenue and income streams but can be bad when interest rates rise, as they have recently. On September 15th, STOR agreed to be acquired for a 20% premium to the previous close and a 15% premium to the underlying net asset value of the owned properties.

Carlisle Companies Inc. (CSL, +17.80%) performed well in a quarter where building products companies have broadly struggled, delivering the right materials to jobsites on time, driving labor savings for the installers. The company is ahead of schedule on delivering against its ambitious 2025 financial targets.

Repligen Corp. (RGEN, +15.22%) reported a better than expected quarter driven by growth in the base business and management raised base business guidance that is more than offsetting lower COVID revenues. In addition, management hosted an investor day that presented a large and growing total addressable market and new long-term financial targets that indicate strong long-term revenue growth.

Three detractors were in the healthcare sector.

Despite an in-line quarter, Catalent Inc. (CTLT, -32.56%) was weak on lower than expected initial 2023 guidance primarily due to FX headwinds and a significant reduction in COVID revenues (-66% reduction in COVID volumes). However, management still called for 25%+ growth excluding COVID (drive by cell and gene therapy and capacity expansion across Biologics and Bettera) and raised long-term revenue growth targets from 8%-10% to 8%-12%, largely due to higher growth in the Pharma / Consumer Health segment.

West Pharmaceutical Services Inc. (WST, -18.57%) reported a strong quarter but sold-off intra-quarter, similar to many pick and shovel healthcare peers, as investors continue to be concerned with the potential of a COVID "cliff." While management did lower expected COVID revenue, this is largely offset by higher base business revenue growth resulting in organic constant currency growth targets in-line with long-term targets. We are comfortable with the transition from COVID related revenue growth to non-COVID / base business revenue growth.

Bio-Techne Corp. (TECH, -18.00%) reported a fairly strong quarter, but the stock has been weak recently primarily due to the announced CEO transition. The current CEO, Chuck Kummeth, will transition to the Board of Directors in June 2024 and TECH will announce a new CEO. Mr. Kummeth is a highly-regarded life science executive who has led the company since FY13 and created significant shareholder wealth. After listening to the company at a recent investor conference, we feel comfortable that the key drivers of the business remain strong and believe that there will not be a change in strategy or capital allocation.

### SMID Cap Core THIRD QUARTER 2022 CONTRIBUTION REPORT Ranked by Basis Point Contribution

	Basis Point Contribution	Return
<b>Top Contributors</b>		
STORE Capital Corp.	+46	+23.45%
Carlisle Companies Inc.	+31	+17.80%
BioLife Solutions Inc.	+29	+64.74%
Repligen Corp.	+29	+15.22%
Pinnacle Financial Partners, Inc.	+27	+12.47%
<b>Bottom Detractors</b>		
Catalent Inc.	-85	-32.56%
West Pharmaceutical Services Inc.	-44	-18.57%
Bio-Techne Corp.	-40	-18.00%
Markel Corp.	-40	-16.16%
Algonquin Power & Utilities Corp.	-34	-16.42%

*The performance presented above is sourced through Factset Research Systems Inc. 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 Fund. Holdings listed might not have been held for the full period. For informational purposes the top contributors shown only include those positions held at quarter-end for the entire quarter. Holdings sold intra-quarter are not included. 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.*



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## Portfolio Activity

Portfolio activity remained low, given our high conviction in the names we own and the mostly solid quarterly results they reported. We trimmed Martin Marietta Materials Inc. (MLM) and American Financial Group Inc. (AFG) due to less attractive valuations and sector weight risk controls. We added to Potlatch Deltic Corp. (PCH) as our recent conversation with management increased our conviction in management's capital allocation priorities.

## Outlook

We don't know when the bear market will end, but it will. Even so, here is our best guess as to how things might play out. In our last outlook, we estimated that we were at least halfway through the bear market. The average bear market has been approximately 16 months accompanied by a 41% decline. The current bear market for the Russell 2500® Index is 11 months, with a 29% decline from the peak. Further downside is possible given the Fed's commitment to 2% inflation and the economic pain and earnings contraction potentially associated with achieving that objective. Playing the averages, a reasonable guess might be another 10%-15% to the downside if a deep recession takes hold. More downside if the Fed goes too far and breaks something, or Russia goes nuclear. Maybe less downside if inflation falls toward 2% faster than the Fed expects. It is even possible the bottom is in, if the Fed pivots under pressure from President Biden, with friendly trading partners suffering from dollar strength or the credit market malfunctioning. As always, more things can happen than will happen. We simply cannot know for sure, which is why the portfolio is diversified by industry and lifecycle to help manage risks we can't know or control while remaining concentrated enough to allow for the company specific value creation to drive longer-term excess return.

Given elevated risks and wide potential outcomes, we expect volatility to remain high. Rallies will be fueled by the Fed skeptics who are convinced the Fed pivot is just around the corner. Declines or new lows will be driven by deteriorating economic and earnings data into an unwavering hawkish Fed. The silver lining to where we find ourselves in the current investment environment is that a lot of negative news is priced in. Despite all the negative economic and inflationary news this quarter, the portfolio only dropped 2.13%. Perhaps most of the damage of this bear market is behind us. A lot will depend on how corporate earnings/cash flows hold up/deteriorate from here.

Regardless of which scenario plays out, we believe investors should be preparing to increase their equity allocations over the next 3-9 months. Note, smaller cap stocks often lead the way out of bear markets as historically they have been more sensitive to changes in liquidity and credit spreads.

As always, we believe the companies we aim to invest in demonstrate high managerial skill in capital allocation and adaptability, which we believe can create value for customers, employees, communities, and shareholders.

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



# SMID Cap Core

## TOP TEN HOLDINGS AS OF 9/30/22

Company	% of Assets
Pinnacle Financial Partners Inc.	3.28%
Repligen Corp.	3.24%
Devon Energy Corp.	3.10%
Fair Isaac Corp.	2.97%
ServisFirst Bancshares Inc.	2.93%
Teledyne Technologies Inc.	2.91%
Avery Dennison Corp.	2.79%
STORE Capital Corp.	2.77%
Copart Inc.	2.74%
EastGroup Properties Inc.	2.73%

*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.*

The opinions and analyses expressed in this newsletter 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 presentation. 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 newsletter. The information and data in this presentation does not constitute legal, tax, accounting, investment or other professional advice. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. This information is confidential and may not be reproduced or redistributed to any other party without the permission of RMB Capital.

An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear 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 the strategies. The benchmarks are shown for comparison purposes and are fully invested and include 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 2500 is a subset of the Russell 3000, including approximately 2500 of the smallest securities based on their market cap and current index membership. The strategies include small- to mid-cap equity portfolios. The strategies may target investments in companies with relatively small market capitalizations (generally between \$500 million and \$10 billion at the time of initial purchase), that are undervalued as suggested by RMB Capital's proprietary economic return framework. The Russell 2500 Value Index tracks the performance of companies with lower price-to-book ratios, which shows a company's market price relative to its balance sheet. The Russell 2500 Growth Index is a subset of companies with higher price-to-book ratios, or those expected to have higher growth values in the future.

**Basis Point (bps):** A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

**EV/EBITDA:** Enterprise multiple, also known as the EV multiple, is a ratio used to determine the value of a company. The enterprise multiple, which is enterprise value (Market capitalization + Total debt – Cash and cash equivalents) divided by earnings before interest, taxes, depreciation, and amortization (EBITDA), looks at a company the way a potential acquirer would by considering the company's debt. What is considered a "good" or "bad" enterprise multiple varies by industry.



# SMID Cap Core

## RMB Asset Management

SMID Cap Core Composite // GIPS Report

**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 periods April 1, 2005 through December 31, 2020. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

**Description** | The SMID Cap Core Strategy product reflects the performance of fully discretionary equity accounts, which have an investment objective of long-term growth that target investments in companies with relatively small market capitalizations (generally between \$500 million and \$10 billion at the time of initial purchase), that are undervalued as suggested by RMB Capital's proprietary economic return framework. For comparison purposes is measured against the Russell 2500® index. The inception date of the SMID Cap Composite is March 31, 2004 and the Composite was created on March 31, 2004. Valuations and returns are computed and stated in U.S. Dollars. Effective November 2021, Jeff Madden is no longer a portfolio manager for the strategy. There is no change to the strategy's investment process.

### ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

Year End	Composite Assets			Annual Performance Results					
	Total Firm Assets* as of 12/31 (\$M)	USD (\$M)	# of Accounts Managed	Composite Gross-of-Fees (%)	Composite Net-of-Fees (%)	Russell 2500® (%)	Composite 3-YR ST DEV (%)	Russell 2500® 3-YR ST DEV (%)	Composite Dispersion (%)
2021	6,277.61	348.24	<5	29.37	28.50	18.18	20.05	22.48	0.44
2020	5,240.59	269.42	<5	25.78	24.88	19.99	21.75	24.21	0.00
2019	4,947.90	178.96	<5	32.61	31.50	27.77	13.52	14.58	0.98
2018	4,196.90	175.89	<5	-4.12	-4.91	-10.00	13.24	14.10	0.14
2017	3,610.61	310.59	5	14.68	13.67	16.81	10.64	12.14	0.28
2016	NA	448.67	9	13.33	12.33	17.59	12.04	13.67	0.23
2015	NA	775.77	9	0.07	-0.82	-2.90	11.47	12.42	0.21
2014	NA	994.30	8	4.74	3.81	7.07	11.03	11.67	0.28
2013	NA	1,712.59	16	32.46	31.30	36.80	15.06	15.63	0.15
2012	NA	1,612.27	26	13.84	12.83	17.88	17.78	18.97	0.09

\*RMB Capital acquired the composite by combining with IronBridge Capital Management on June 24, 2017. Firm assets prior to 2017 are not presented as the composite was not part of the firm. RMB Capital acquired the composite by combining with IronBridge Capital Management on June 24, 2017. Composite performance prior to that date was achieved by IronBridge Capital Management.

**Fees** | The standard management fee is 0.90% of assets annually, which is also the highest applicable fee. 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. For periods prior to 2018, net returns are computed by subtracting the highest applicable fee (0.90% on an annual basis, or 0.075% 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. Beginning in 2018, net returns are reduced by actual management fees and transactions costs incurred. 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 investments, calculating performance, and preparing GIPS Reports are available upon request.

Annualized Returns as of 12/31/2021	1 Year	5 Years	10 Years
Strategy (net of fees)	+28.50%	+17.93%	+14.60%
Russell 2500® Index	+18.18%	+13.75%	+14.15%

**Minimum Value Threshold** | The account minimum in the SMID Cap Core Composite is currently \$2.0 million. Prior to January 1, 2015, the composite excluded portfolios under \$5.0 million.



# SMID Cap Core

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**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 SMID Cap Core composite is the Russell 2500<sup>®</sup> Index, which for comparison purposes is fully invested and includes the reinvestment of income. The Russell 2500<sup>®</sup> is a subset of the Russell 3000<sup>®</sup>, including approximately 2500 of the smallest securities based on their market cap and current index membership. 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 than the composite returns listed. GIPS<sup>®</sup> is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A list of Composite Descriptions and a list of Broad Distribution Pooled Funds are available upon request.

