Small Cap Focus

Portfolio Update: Third Quarter 2022

During the third quarter ending September 30, 2022, the Small Cap Focus Composite (the "Strategy") returned -4.08%, gross of fees (-4.23%, net of fees), compared to a -2.19% return for the Russell 2000® Index.

	3 Months	YTD	1 Year	3 Years	Since Inception
Small Cap Focus (Gross)	-4.08%	-25.25%	-18.84%	+7.46%	+12.48%
Small Cap Focus (Net IM Fees)	-4.23%	-25.63%	-19.37%	+6.83%	+11.84%
Small Cap Focus (Net IM & WM Fees)	-4.48%	-26.21%	-20.19%	+5.76%	+10.72%
Russell 2000® Index	-2.19%	-25.10%	-23.50%	+4.29%	+7.14%

Inception date: December 31, 2018. Performance for periods of greater than one year is annualized. 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. Investment management (IM) fees are charged for managed investment accounts, is intended to compensate the portfolio managers for their time and expertise for selecting investments and managing the specific strategy as well as other items, such as investor relations expenses and the administration costs. Wealth management (WM) fees are charged to cover the construction and management of a portfolio and the holistic wealth management services that a client has chosen beyond their investments including, but are not limited to, estate planning, tax strategies (and related services), risk management, financial planning, retirement planning, investment advice, and insurance/banking oversight services. These fees vary by client and for this presentation the highest possible wealth management fees has been applied in these calculations.

The quarter witnessed extreme volatility as the Russell 2000® Index increased 18% 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![1] Single Family Housing Permits declined a seasonally adjusted 15.3% year-over-year.[2] 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%.[3] 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.

[1] Source: Factset.

[2] Source: https://www.census.gov/construction/nrc/pdf/newresconst.pdf

[3] Source: ICE BofA Single-B U.S. High Yield Index Option-Adjusted Spread

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Contributors and Detractors

Contributors were diversified by industry and life cycle.

Devon Energy Corp. (DVN, +11.58%) continued to benefit as the energy sector was one of the best performing sectors during the quarter. DVN posted strong Q2 2022 results across all metrics. We believe the disciplined returns-driven strategy, operational excellence, balance sheet strength, and high-quality asset base position DVN for sustainable value creation throughout the commodity cycle.

BioLife Solutions Inc. (BLFS, +64.74%) continued its recovery from oversold conditions in May and June and the company reported very strong 2Q results. The core cell media preservation (46% organic growth) is benefiting from clinical trials moving into Phase II and III along with label expansions among its approved customers in the Cell and Gene Therapy (CGT) market. In addition, BLFS has made significant progress in resolving supply chain and quality control issues at its Stirling cold-storage technology business. This turnaround has driven margins higher.

Detractors were negatively impacted by company specific mostly temporary headwinds. 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.

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THIRD QUARTER 2022 CONTRIBUTION REPORT

Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Devon Energy Corp.	+57	+11.58%
BioLife Solutions Inc.	+56	+64.74%
Repligen Corp.	+38	+15.22%
STORE Capital Corp.	+34	+21.70%
RBC Bearings Inc.	+24	+12.36%
Bottom Detractors		
Catalent Inc.	-114	-32.56%
Omnicell Inc.	-69	-23.49%
Neogen Corp.	-68	-42.01%
Argo Group International Holdings Ltd.	-68	-46.38%
West Pharmaceutical Services Inc.	-62	-18.57%

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.

Omnicell Inc. (OMCL, -23.49%) reported a largely in-line quarter but was weak following the subsequent investor day. Management re-affirmed its 2025E outlook for revenue despite the macro environment, as OMCL's products and services are viewed as increasing hospital productivity and efficiency. However, adjusted EBITDA margin guidance for 2025E was reduced due to inflation headwinds and investments in software and tech-enabled services. We believe that these are appropriate investments to drive long-term growth and eventual margin expansion.

Portfolio Activity

As mentioned in our last quarterly letter, overall, we feel good about the companies we own. Having said that, volatility allowed us to reduce some of our larger names into the upward volatility, and to use downward volatility to get involved in some of the smaller companies on our "want to own" list. We reduced our positions in Devon Energy Corp. (DVN) and Chart Industries, Inc. (GTLS) and added to our position in PotlatchDeltic Corp. (PCH). We sold Argo Group International Holdings Ltd. (ARGO) due to a thesis violation.

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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 2000® is 11 months, with a 32% 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 4.24%. 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

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TOP TEN HOLDINGS AS OF 9/30/22	
Company	**% of Assets**
Devon Energy Corp.	5.14%
Seacoast Banking Corp. of Florida	4.61%
EastGroup Properties Inc.	4.06%
Repligen Corp.	4.01%
Monolithic Power Systems Inc.	4.00%
Pool Corp.	3.70%
Eagle Materials Inc.	3.69%
Curtiss-Wright Corp.	3.56%
Watsco Inc.	3.50%
TriCo Bancshares	3.50%

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.

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.

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

While "high-quality" has no single, strict industry definition, we define high-quality stocks as those that we believe offer more reliability and less risk based on a set of clearly defined fundamental criteria including hard criteria (e.g., balance sheet stability, operating efficiency, enterprise life cycle) and soft criteria (e.g., management credibility). We define well-managed companies as those that intentionally grow assets when their economic return on capital is above the cost of capital, are willing to shrink assets when economic return is below the cost of capital, and actively seek to improve economic return when it is approximately equal to the cost of capital.

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RMB Asset Management

Small Cap Focus 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 Small Cap Focus Strategy reflects the performance of fully discretionary 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 Strategy seeks to maintain a concentrated portfolio of approximately 40 securities. The inception date of the Small Cap Focus Composite is December 31, 2018 and the Composite was created on 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. 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 (%)	% Non-Fee Paying Assets (%)	Composite Dispersion (%)
2021	6,277.6	309.86	528	28.55	27.78	14.82	19.80	23.35	0.00	0.99
2020	5,240.6	207.48	388	23.35	21.68	19.96	N/A	N/A	0.00	2.24
2019	4,947.9	97.96	253	32.23	31.57	25.52	N/A	N/A	1.21	0.79

** Composite dispersion is reported as N/A when the information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year*

Annualized Returns as of 12/31/2021 (Inception Date: 12/31/2018)	1 Year	Since Inception
Strategy (net of fees)	+27.78%	+26.94%
Russell 2000® Index	+14.82%	+20.02%

***Fees** | The standard management fee is 0.750% of assets on the first $2.0 million, 0.700% on the next $2.0 - $5.0 million, 0.650% on the next $5.0 million, 0.600% on the next $10.0 – $20.0 million, and 0.550% over $20.0 million. 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. The net returns are reduced by all actual 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. Risk measures presented are calculated using gross-of-fees performance. Policies for valuing investments, calculating performance, and preparing GIPS Reports 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. 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 Focus 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 than the composite returns listed. GIPS® 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.*