Equity Income

Portfolio Update: Second Quarter 2023

During the second quarter ending June 30, 2023, the Equity Income Composite (the "strategy") returned +3.14%, gross of fees (+3.00%, net of fees), compared to +4.07% return for the Russell 1000® Value Index.

	3 Months	YTD	1 Year	Since Inception
Equity Income (Gross)	+3.14%	+2.68%	+11.59%	+3.39%
Equity Income (Net of IM fees)	+3.00%	+2.41%	+10.99%	+2.87%
Equity Income (Net of IM & WM Fees)	+2.75%	+1.90%	+9.90%	+1.84%
Russell 1000® Value Index	+4.07%	+5.12%	+11.54%	-1.88%

Inception date: December 31, 2021. 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 June 30, 2023. 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.

During the second quarter, equity markets rose with the market continuing to favor growth over value. The Russell 1000® Value Index increased +4.07%, while the Russell 1000® Growth Index increased +12.81%. Year-to-date, The Russell 1000® Value has increased +5.12%, while the Russell 1000® Growth has increased +29.02%. Two factors are frequently highlighted as contributing to the return of the bull market in growth stocks. First, excitement about the prospects for Artificial Intelligence (AI) after the ChatGPT app and other Large Language Models made this technology more widely visible and tangible to the investing public. This explanation also speaks to the narrow concentration of performance in the data-rich mega cap technology names poised to benefit from this new growth area like Microsoft Corp. (MSFT), Alphabet Inc. (GOOG/GOOGL), and Amazon.com Inc. (AMZN) as well as the "picks and shovels" providing computational power, like NVIDIA Corp. (NVDA) and Advance Micro Devices Inc. (AMD). A second factor driving growth stocks has been Fed policy, which may seem counterintuitive given rising rates are typically bad for growth stocks. The Fed has raised the Fed funds rate dramatically since March 2022, up 500 bps to 5.00%-5.25% (the Fed is widely expected to hike another 25bps at its July meeting). However, longer-term rates (U.S. 10 year Treasury yields), which investors use as a starting point in estimating the cost of capital, may have peaked last October at 4.23%. Falling rates would benefit long-duration securities like growth stocks.

Classifications of "value" and "growth" are blunt instruments. Regardless of the market's preference for one style over another from quarter-to-quarter or year-to-year, our focus remains on identifying dividend-paying companies that we believe have attractive total return potential. Our focus on dividends tends to lead us to research companies on the value end of the spectrum, but we certainly do not shy away from those that are able to grow and compound high returns. We get excited when we find companies that have both a high-income component *and* compounding potential. For example, the most recent new buy in the portfolio, Dick's Sporting Goods Inc. (DKS), has grown revenues by 7.5% compound annual growth rate (CAGR) and earnings by nearly 30% CAGR over the past 5 years. It's that sort of growth and compounding that has enabled it to increase its quarterly dividend from $0.23/share to $1.00/share over the same timeframe.

Contributors and Detractors

Our holdings in Industrials and Healthcare contributed positively to results, while relative performance in communication services, materials, and consumer staples were headwinds. Similar to what we highlighted in this letter last quarter, non-ownership of stocks like Meta Platforms Inc. (META), Alphabet Inc. (GOOG/GOOGL), and Salesforce Inc. (CRM), which do

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not pay dividends, accounted for nearly all of the strategy's relative underperformance last quarter and year-to-date. Rather than focusing on these stocks, which fall outside the parameters of our investment guidelines, we will highlight contributions from the high quality, dividend-paying businesses included in the portfolio.

Hubbell Inc. (HUBB) was the largest contributor to total return this quarter. Its Utility Solutions business is benefiting from demand for transmission and distribution equipment as utilities invest to strengthen the electrical grid. Further, easing supply chain constraints and added manufacturing capacity has enabled the company to deliver on its elevated backlog and take share from competitors. Sales in this segment grew nearly 20% organically, half from price and half from volume, and margins nearly doubled from 13.5% to 22.7%. Hubbell subsequently raised its revenue and earnings guidance for the year. We believe this execution demonstrates that the company's recent investments in capacity and innovation have positioned it well to benefit from the investments flowing from electrification megatrends and infrastructure stimulus funds. As HUBB's stock price has appreciated, its dividend yield has come down to 1.4%, the lowest of all stocks in the portfolio. Thus, we have begun to reduce the position size, and expect to continue to gradually decrease its influence on the portfolio.

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SECOND QUARTER 2023 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Average Weight
Top Contributors		
Hubbell Inc.	+130	4.02%
Watsco Inc.	+98	5.32%
JPMorgan Chase & Co.	+55	4.80%
Merck & Co. Inc.	+51	6.13%
Johnson & Johnson	+43	5.83%
Bottom Detractors		
Walgreens Boots Alliance Inc.	-46	2.70%
Int'l Flavors & Fragrances Inc.	-39	2.60%
Advance Auto Parts Inc.	-21	1.72%
Gilead Sciences Inc.	-20	2.98%
Chevron Corp.	-13	5.54%

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.

Merck & Co. Inc. (MRK) reported strong fundamentals and guidance this quarter, leading to positive returns and contribution. Merck's largest drug is Keytruda (~40% of sales), an immunotherapy medicine used to treat several types of cancer including melanoma, lung cancer, Hodgkin lymphoma, and certain types of breast cancer. Core to our investment thesis is our expectation that Merck will continue to grow Keytruda revenues rapidly while under patent protection through the end of this decade, while also focusing on pipeline advancement and business development to replace the revenues from the eventual loss of patents. MRK progressed positively on both of those accounts this quarter. Keytruda revenues grew by 24%, reflecting a strong uptake in earlier-stage cancers. Merck also announced the $11B acquisition of Prometheus Biosciences, a biotech company with a leading pipeline drug targeting the treatment for ulcerative colitis and Crohn's disease. MRK shares ended the quarter with a 2.5% dividend yield.

On the negative side, Walgreens Boots Alliance Inc. (WBA) was the largest detractor. Our investment thesis for Walgreens rests on the successful shift in the business towards its Walgreen's Health division. We view all companies in terms of the corporate lifecycle. This is an example of a core business that has reached maturity (the retail pharmacy business), and a management team that is investing in an early-stage business (Walgreens Health) to drive the next phase of growth for the company. Such transformations are challenging. While the growth in Walgreens Health has been strong, the path to profitability is taking longer than expected. WBA shares ended the quarter with a 6.7% dividend yield. On the earnings call, CFO James Kehoe said, "I want to make it crystal clear; we're absolutely committed to the dividend" and emphasized that the $5 Billion of non-core stock holding in AmerisourceBergen Corp. (ABC) is a source of firepower to continue to support that dividend during the transition, in addition to the expectations for core operating profit growth in 2024 and aspirations for low-teens EPS growth over time.

International Flavors & Fragrances Inc. (IFF) also detracted from performance. Sales were flat year-over-year, as strong pricing offset volume declines and margins improved sequentially. That said, the company lowered its sales and earnings guidance for the current quarter, reflecting continued volume weakness. We invested earlier this year due to our belief that the new leadership team's approach to capital allocation is well-aligned with our own philosophy around value creation. The company is now using Return on Invested Capital (ROIC) for both business evaluation and for incentive compensation and is focused on driving cash flow and divesting non-core assets to reduce debt. So far, the plan looks a lot better on paper than the reality and it remains a "show me story." IFF shares ended the quarter with a 4.1% dividend yield.

Portfolio Activity

While we don't target a specific turnover level, we believe turnover will typically be low, but healthy. Over the past 12 months, turnover in the strategy (excluding flows) has been 15.53%. During the quarter, we only sold one stock to zero: Advance Auto Parts Inc. (AAP). As highlighted in our last letter, we had a heightened concern that the ~5% dividend was at risk of being cut if the company faced further pressure on its business. We sold the position in advance of the company's earnings report, where the company announced an 83% cut in the dividend. Investing in stocks with high dividend yields implies some risk of dividend cuts. We will continue to be diligent in seeking to avoid owning companies during a dividend cut, as we did in this case.

Proceeds from the sale of AAP were used to initiate a new position in Dick's Sporting Goods Inc. (DKS). Dick's is the market share leader in sporting goods in the U.S. While the company benefited from COVID-related demand for sports equipment and home fitness, we believe the company has made structural improvements in the business that the market does not fully appreciate. After applying a largely inward focus on key categories, merchandising, customer experience and vertical brands, management is now reaccelerating investment into its existing stores and new concepts. Earlier this year, DKS doubled its dividend payment to $1.00 per quarter, reflecting confidence in the structural shift that has occurred and giving DKS shares an attractive 3.0% dividend yield as of June 30th.

During the quarter, we also initiated a new position in BlackRock Inc. (BLK). With over $9 Trillion of assets under management, BlackRock is the world's largest asset manager. It is best known for its iShares and BlackRock-branded ETF products, but the assets are well-balanced across client type (57% institutional/43% ETFs and retail), style (27% active, 32% index, 41% ETFs and cash) and product type (52% equity/29% fixed income/11% multi-asset and alts/8% cash). Despite its size, the company has found levers to continue to consistently drive mid-single digit core revenue growth and targets double-digit earnings growth. In addition to the long-term tailwinds from market gains, we believe new product development, operating leverage and disciplined cost management of this highly scaled business model will continue to support growth in cash flows and dividends. With its $5/share quarterly dividend, BLK's dividend yield as of 6/30 was 2.9%.

In addition to these changes to the portfolio, we added to our positions in Chevron Corp. (CVX), Federal Realty Investment Trust (FRT), and Walgreens Boots Alliance Inc. (WBA). We reduced positions in CME Group Inc. (CME), JPMorgan Chase & Co. (JPM), Hubbell Inc. (HUBB), and Watsco Inc. (WSO).

Income during the quarter included regular dividends from every stock that was held in the portfolio for the duration of the quarter. Year-over-year, regular dividends increased for 23 of the 25 stocks, while two were flat, Dow Inc. (DOW) and JPMorgan & Chase Co. (JPM). DOW has not raised its dividend since we have owned it, but JPM announced a 5% increase in its annual dividend in the third quarter. There were no dividend cuts. Dividend income contributed 1.0% of total return in the second quarter.

As of 6/30/2023, the weighted yield based on the indicated regular dividends (excluding special dividends) was 3.8%. This compares to the dividend yield of the Russell 1000® Value benchmark of 2.3% and the S&P 500 yield of 1.5%. We believe the strategy will maintain a total dividend yield roughly 1x – 2x the S&P 500 dividend yield.

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Outlook

Coming into 2023, the consensus view was that the U.S. would face a recession sometime in the back half of 2023, as the economy responded to long and lagged effects of Fed rate hikes. In February, the Conference Board model estimated the probability of a recession in the U.S. over the next 12 months to be 99%. The economy has thus far proven to be more resilient than feared. Inflation pressure is moderating, and the labor market is showing signs of normalization, but both of these factors are progressing more slowly than anticipated. As a result, the Fed is expected to continue tightening in upcoming meetings and possibly adopt a "higher-for-longer" approach to fighting the persistent inflation. At the time of this letter, the target Fed Funds Rate stands at 5.00% - 5.25% The probability that rates will end the year lower than the current level in 2023 has fallen to <1%.

Despite that backdrop, the VIX, or the fear gauge, has fallen from 22.9 to 13.4 this year and stocks have clearly rallied. This can be viewed as increased investor confidence, increased complacency, or maybe a bit of both. The bulls argue that we made it through the regional banking crisis, the debt ceiling negotiations have come and gone, and the gradual progression in the employment situation are setting up for a "soft landing" or even a "no landing" scenario. The bears can point to elevated valuations, dampened bank lending, a deeply inverted yield curve, and increased risk of a more challenged consumer ahead. While we remain bullish about the prospects for the companies in the portfolio, we lean towards the cautious side of the spectrum when it comes to the economic outlook, and the portfolio is positioned defensively to reflect this view.

Economic cycles, interest rates, and investor preferences all influence short-term absolute and relative performance. Over the long-term, we believe that investing in high quality companies that create value for shareholders and distribute a portion of that cash flow in the form of dividends can result in long-term shareholder returns that beat the overall market.

Thank you for your confidence in the team and the Strategy. If you have any questions, please do not hesitate to contact us.

Sincerely,

John O'Connor, CFA
Partner, Portfolio Manager

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TOP TEN HOLDINGS AS OF 6/30/23	
Company	**% of Assets**
Merck & Co. Inc.	6.08%
Johnson & Johnson	5.94%
Chevron Corp.	5.51%
Raytheon Technologies Corp.	5.45%
Watsco Inc.	5.28%
JPMorgan Chase & Co.	4.76%
PepsiCo Inc.	4.68%
Federal Realty Investment Trust	4.57%
Altria Group Inc.	4.34%
Texas Instruments Inc.	4.33%

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. 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 S&P 500 is widely regarded as the best single gauge of the United States equity market. It includes 500 leading companies in leading industries of the US economy. The S&P 500 focuses on the large cap segment of the market and covers approximately 75% of US equities. The Russell 2000® 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 2000® 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.

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RMB Asset Management

Equity Income 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 Equity Income Strategy reflects the performance of fully discretionary equity accounts, which have an investment objective of dividend income and capital appreciation using a portfolio of primarily U.S. stocks with market caps > $2 Billion and for comparison purposes is measured against the Russell 1000® Value Index. The inception date of the Equity Income Composite is December 31, 2021 and the Composite was created on December 31, 2021. Valuations and returns are computed and stated in U.S. Dollars.

ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

No performance due to insufficient data (less than 1 year since inception date).

Fees | *Effective January 1, 2011, RMB' Capital's management fee schedule for this Composite is as follows: 0.50% on the first $3.0 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. Actual 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 and custodian fees. 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. In addition to a 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 investments, calculating performance, and preparing GIPS Reports are available upon request.*

Minimum Value Threshold | *There is no account minimum for the Equity Income composite.*

Comparison with Market Indices | *RMB compares its Composite returns to a variety of market indices such as the Russell 1000® Value Index. The index represents unmanaged portfolios whose characteristics differ from the Composite portfolios; however, it tends to represent the investment environment existing during the time period shown. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected and historical growth rates. An investment cannot be made directly in an index. The returns of the index 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 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.*