Core Equity

Portfolio Update: Third Quarter 2019

In the third quarter of 2019, the Core Equity Portfolio (the "Portfolio") decreased -0.61% gross of fees (-0.74% net of fees), underperforming the positive +1.16% return for the Russell 3000 Index. Year to date, the Portfolio increased +24.58% gross of fees (+24.12% net of fees), outperforming the +20.09% return of the Russell 3000.

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (Annualized)
Core Equity Strategy	-0.74%	+24.12%	+2.25%	+16.04%	+10.53%	+12.06%	+7.92%
Russell 3000 Index	+1.16%	+20.09%	+2.92%	+12.83%	+10.44%	+13.08%	+8.87%
S&P 500 Index	+1.70%	+20.55%	+4.25%	+13.39%	+10.84%	+13.24%	+8.83%

Inception date: April 1, 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.

We were moderately disappointed with the Portfolio's relative underperformance in the third quarter as we partially gave back some of its year-to-date outperformance; however, the Portfolio's performance is still ahead of the benchmark for the year. We remain quite pleased with the year-to-date absolute return in which the market has bounced back nicely from last year's substantial fourth-quarter selloff. The first three quarters of the year represent the highest market return (in the S&P 500 Index) since 1997; however, as we learned last year, markets can change quickly. From a traditional attribution perspective, the Portfolio's underperformance in the third quarter was roughly split between negative sector allocation and stock selection. By far, our largest detractor to performance was from selection in the technology sector, partially offset by positive selection in the consumer discretionary sector. While it's interesting to see drivers of performance over a three-month period, we remain focused on compounding shareholder capital over the very long run, measured in years, not quarters. As mentioned last quarter, we are inclined to attempt to take some macroeconomic-related risk off the table and make it moderately more defensive without making major wholesale changes. We feel it is prudent to become a little more defensive in the current environment without changing our adherence to relatively low turnover by owning high-quality, long-term compounding business models. We will discuss individual holdings and their impact on performance in a bit.

The third-quarter market environment saw a significant increase in volatility, bolstered by the ongoing trade war between the U.S. and China, monthly economic data, falling interest rates, and a proposed impeachment inquiry of the president near quarter-end. Chalking it all up, a more turbulent economic and political environment seems to be the "new normal" that could frame our investing backdrop for the next few quarters. The U.S. has remained one of the strongest and most resilient economies in the world over the past couple of years, although recent domestic data points have pointed toward further deceleration in growth. In particular, the manufacturing sector of the U.S. economy has really weakened, while the larger consumer-focused sector has remained fairly strong. Fears of a recession on the intermediate horizon have clearly grown, with the 10-year Treasury yield falling 34 basis points from 2.01% to 1.67% in the quarter, and down from 3.06% a year ago. The Fed followed through with its more dovish positioning with another 25 basis-point cut to rates in September, which they are billing as a "mid-cycle correction" in policy rather than an extended easing cycle. Lower rates and an accommodative Fed are typically good for the stock market; however, if it's foreshadowing more economic weakness, then it could be viewed as a leading indicator that we are nearing the end of a 10-year economic expansionary cycle.

Second-quarter earnings reports released in the third quarter saw revenues and earnings continue to surprise positively vs. very low expectations, although year-over-year earnings growth for the market as a whole was up less than 1%. The concerns about the sustainability of revenue growth and historically high profit margins have only grown, and it's likely that 2020 earnings estimates remain too high. Current consensus, according to Yardeni Research, is for 11% earnings growth in 2020, which seems far too optimistic versus a deteriorating economic environment hurting top-line growth and ongoing margin pressures. The negative forward revisions we've seen over the past few months could continue with the next round of earnings reports coming this month and into November. Given high levels of uncertainty around global growth and the lingering trade impacts, we would expect management teams to remain on the conservative side when setting forward expectations and will watch closely for any change in management's tone toward demand for their products and services.

Our message about overall equity valuations is nearly identical with how we felt at the end of last quarter. While not overly expensive, especially given an even lower interest-rate backdrop, we are not finding bargains to be abundant by any means, particularly in our quality growth universe. As we'll discuss in a bit, the Portfolio is seeking a couple of strong new ideas, but attractively priced entry points in individual names with good fundamentals are hard to find. From a bottom-up, individual company perspective, the Portfolio has more reward-to-risk ratios under one than it has greater than one. This was much different from where we stood at the end of 2018 after the big fourth-quarter selloff, which reflects the significant rebound in prices year to date without any upward revisions in earnings estimates or growth expectations. Said another way, the market return this year has come entirely from multiple expansion. From a longer-term perspective, we also must be cognizant of the fact that we are, more likely than not, in the late innings of a historically long positive economic cycle. While we do not necessarily see a recession as imminent, the probability continues to get larger, particularly as the trade war with China deepens and extends in duration. The U.S. consumer has been quite resilient as low unemployment and wage gains have helped offset weaker parts of the economy. As we have penned recently, the concept of "peak earnings" has remained a debate these days that, even if the U.S. does not roll into a meaningful economic recession, we could be close to the peak in corporate profitability given outside pressures on margins (particularly wage inflation) and deteriorating economies outside the U.S. As always, macro market predictions are very difficult to make with any hopes of being consistently accurate. We remain focused on bottom-up stock selection within a concentrated, yet diversified, portfolio of high-quality individual companies that can grow their earnings for years into the future and earn attractive returns on invested capital. No matter what happens with the current market cycle, we strongly believe the strategy positions us to outperform over the long run without taking undue risk.

Contributors and Detractors

The accompanying chart shows the Portfolio's largest contributors and detractors to performance during the third quarter. The largest contributor was Edwards Lifesciences Corp., a market leading provider of transcatheter heart valves and other cardio devices. The stock responded well to its second-quarter earnings report that showed accelerating revenue growth that was ahead of Street expectations. We continue to like both the intermediate- and longer-term growth prospects for Edwards given recent approval to expand the targeted patient population for its devices as well as its innovation pipeline. While much of this good news has been priced into the stock, we continue to believe that it can outperform over the long run and have maintained our larger position size. Internet giant Alphabet Inc. was the second-biggest contributor. The stock moved higher after a strong second-quarter earnings report, which showed a strong reacceleration in revenue growth after an abnormally weak first quarter. They also provided increased disclosure on the size of their cloud business, which investors have been clamoring for. We continue to like Alphabet as a long-term compounder and don't view the current valuation as very demanding relative to its growth prospects, economic moat, and cash-rich balance sheet. It remains the Portfolio's largest position at quarter-end.

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THIRD QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Edwards Lifesciences Corp.	+77	+19.04%
Alphabet Inc.	+67	+12.78%
Genesee & Wyoming Inc.	+35	+10.51%
Frontdoor Inc.	+29	+11.51%
ServiceMaster Global Holdings Inc.	+27	+7.31%
Bottom Detractors		
PTC Inc.	-79	-24.18%
Align Technology Inc.	-69	-34.10%
EOG Resources Inc.	-64	-20.07%
Middleby Corp.	-61	-13.87%
Cooper Companies Inc.	-60	-11.83%

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.

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On the negative side of the performance ledger, we had several names that detracted from performance. PTC Inc., a provider of computer-aided design and product lifecycle management software, was the largest basis-point detractor. The stock declined after a weaker-than-expected second-quarter earnings report and forward outlook. We continue to believe that most of PTC's recent issues are temporary and fixable, and the long-term growth outlook for PTC remains bright, particularly for its fast-growing "internet of things" software segment. We are also attracted to the significant upside to operating margins that PTC should achieve as it progresses through its transition to a software as a service (SaaS) business model. We used the weakness in the stock to add to our position and like its long-term upside potential, although may consider tax trading some of our higher cost lots for taxable shareholders during the fourth quarter. Align Technology Inc., the largest provider of clear dental aligners for orthodontics, was the second-largest detractor. The stock declined after a very disappointing second-quarter earnings report in which revenue growth decelerated substantially and margins came under pressure. We've owned Align in varying degrees since late 2015, and it was quite a rollercoaster ride. Given Align was a very high-growth expectations stock, we were well aware of the potential for volatility in owning the name. Over the past three years, we had been trimming back our position size on occasion as the stock price rose to try and manage risk. However, due to our lost confidence in the competitive landscape and Align's longer-term ability to maintain premium pricing, we decided to completely exit our position this quarter.

Portfolio Activity

During the third quarter, the Portfolio did not purchase any names and, as previously mentioned, exited our Align Technology holding. We also did some very modest changing around position sizes, but no additions to the company lineup were made. For many managers, it would be highly unlikely to go a full quarter without purchasing a new idea, but for us, it does happen from time to time given our concentrated portfolios, long-term investment horizon, and desire for low turnover in the strategy. While we always want new ideas "competing for capital" to get into the Portfolio, we also strive to own very high-quality, growing businesses in which we can compound value for years, not months or quarters. The Portfolio does have a modestly higher level of cash than normal at the end of the quarter, and, as mentioned in last quarter's letter, Genesee & Wyoming is in the process of being taken over, so we will be converting to cash relatively soon. Combined with our desire to potentially sell one or two existing names has heightened our need for new ideas. The market environment has not made it easy to find good valuation entry points in stocks of high-quality compounding business models. Our "wish list" is extensive, and we expect our patience to pay off. We'll likely have some level of activity to report back to you post the fourth quarter.

TOP 10 HOLDINGS AS OF 9/30/19

Company	% of Assets
Visa Inc.	6.03%
IHS Markit Ltd.	5.34%
Steris PLC	5.16%
Edwards Lifesciences Corp.	4.98%
Danaher Corp.	4.98%
Middleby Corp.	4.69%
Cooper Companies Inc.	4.48%
Booking Holdings Inc.	4.31%
TJX Companies Inc.	4.08%
Nordson Corp.	4.06%

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.

Outlook

From when we last wrote you three months ago, market volatility has picked up somewhat with the backdrop of further declines in long-term interest rates, increased economic uncertainty, and more political upheaval. For the most part, the market has taken it in stride, although, as we pen this letter in early October, volatility has increased. The upcoming corporate earnings report season that is about to kick off will once again refocus the market back on individual company fundamentals, where we have some areas of concern. Inflationary pressures from a tighter labor market, overseas demand levels, and the impact from tariffs will be areas of focus. Given a fair amount of macro uncertainty, we think management teams will continue to have an extra level of conservatism embedded in their 2019 guidance, and any early thoughts toward 2020 could temper optimism for better growth. Near-term U.S. economic data points have generally been quite mixed, with a bias toward decelerating growth and lower business confidence. We are also approaching the one-year mark until the presidential election, which, along with an impeachment inquiry, is going to dominate the news cycle from here forward.

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Overall, we have some reservations about the momentum in U.S. corporate earnings growth, which is the biggest long-term driver of stock prices. As we've discussed, risks to revenue growth and margins are abundant, which could lead to "peak earnings" or "plateauing earnings" in 2019 or 2020. With the overall market multiple having re-inflated from 2018 year-end levels, it now sits about 18x 2019 and 16.2x 2020, with next year's estimates likely being too high. The long-term average for the market is around 16x, but given we may be nearing peak earnings, there might not be a whole lot of value implied in current market expectations. As always, while we may opine on our view of the overall market, we do not pretend to have any ability to predicting where the market is heading in the short or intermediate term. Market timing is a very difficult, if not impossible, task to add value with. We continue to focus the Portfolio's efforts on owning companies with good secular growth prospects, strong economic moats, underleveraged balance sheets, and superior management teams. These are companies we believe can compound value for shareholders for years into the future. The opportunities to find high-quality growth companies selling at attractive valuations is not very abundant, but we will continue to use our "bottom-up" search to optimize the Portfolio. As mentioned earlier, we have some capital to put to work, and our disciplined investment process focuses more on individual company fundamentals and less on the overall market. We also believe that a strategy focused on high-quality companies can distinguish itself in a more volatile market environment.

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 Griesbach
Portfolio Manager

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.

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RMB Asset Management

Core Equity Composite // 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 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, 2017. Verification assesses whether: (1) the firm has complied with all the composite construction 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 Core Equity composite has been examined for the period of April 1, 2005 through December 31, 2015. The verification and performance examination reports are available upon request. RMB maintains a complete list and description of composites, which are also available upon request.

Description | The Core Equity Strategy (formerly named All Cap GARP-growth at a reasonable price) reflects the performance of fully discretionary equity accounts, which have an investment objective of long-term growth using a portfolio of primarily small-, mid-, and large-cap stocks and for comparison purposes is measured against the Russell 3000 and S&P 500 indices. The Core Equity Composite was created on April 1, 2005. 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 3000 (%)	S&P 500 (%)	Composite 3-YR ST DEV* (%)	Russell 3000 3-YR ST DEV (%)	S&P 500 3-YR ST DEV (%)	% Non-Fee Paying Assets
2018	4,196.9	382.9	697	-1.81	-2.28	-5.24	-4.38	13.03	11.18	10.80	0.04
2017	3,610.6	356.8	625	23.48	22.88	21.13	21.83	12.41	10.09	9.92	0.04
2016	3,047.5	307.5	621	13.88	13.31	12.74	11.96	13.56	10.88	10.59	0.04
2015	3,706.0	298.2	666	-4.60	-5.07	0.48	1.38	12.77	10.56	10.47	0.03
2014	3,312.9	368.3	748	6.44	5.92	12.56	13.69	10.96	9.29	8.97	0.03
2013	3,248.5	372.1	734	31.78	31.14	33.55	32.39	13.10	12.53	11.94	0.03
2012	2,585.9	318.2	784	17.62	17.03	16.42	16.00	15.61	15.73	15.09	0.02
2011	2,218.0	286.4	774	2.03	1.52	1.03	2.11	18.07	19.35	18.70	0.00
2010	1,881.9	313.8	783	13.44	12.09	16.93	15.06	N/A	N/A	N/A	0.00
2009	1,613.9	298.7	776	24.90	23.35	28.34	26.46	N/A	N/A	N/A	0.00
2008	1,113.6	225.3	787	-33.46	-34.29	-37.31	-37.00	N/A	N/A	N/A	0.00
2007	1,420.6	279.3	746	7.20	5.86	5.14	5.49	N/A	N/A	N/A	0.00
2006	1,070.2	275.4	806	7.99	6.66	15.71	15.79	N/A	N/A	N/A	0.00
2005**	811.9	236.3	677	12.41	11.37	8.51	7.22	N/A	N/A	N/A	0.00

The 3 year ex-post standard deviation is not presented prior to 2011 because it is not required. Results shown for the year 2005 represent partial period performance from April 1, 2005 through December 31, 2005.*

***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, 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 84% of composite assets. 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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.*

***Minimum Value Threshold** | There is no account minimum in the Core Equity Strategy.*

***Comparison with Market Indices** | RMB compares its Composite returns to a variety of market indices such as the Russell 3000 and the S&P 500. 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. 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 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.*