# RMB Fund

## Portfolio Update: Fourth Quarter 2022

During the fourth quarter ending December 31, 2022, the RMB Fund (the "Fund") increased, +5.16% net of fees, trailing the +7.56% increase in the S&P 500 Index return for the for the same period. The Fund finished 2022 with a return of -21.20%, versus a total return of -18.11% return for the benchmark.

| | Quarter | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|---|---|---|---|---|---|---|---|
| RMBHX | +5.16% | -21.20% | -21.20% | +5.90% | +9.62% | +10.35% | +10.30% |
| S&P 500 Index | +7.56% | -18.11% | -18.11% | +7.66% | +9.42% | +12.56% | +11.17% |
| RMBHX (Load Adjusted) | -0.09% | -25.14% | -25.14% | +4.11% | +8.50% | +9.79% | +10.18% |

***Performance over one year is annualized. The performance data quoted represents past performance and is not a guarantee of future results. The investment return and principal value of an investment will fluctuate, so that those shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. To obtain performance as of the most recent month end, please call 855-280-6423. The Fund's expense ratio is 1.12%.***

***The Fund's investment advisor, RMB Capital Management, LLC, has adapted a contractual expense limitation agreement for each fund through April 30, 2023 reducing the applicable Fund's operating expenses. This may be continued from year to year thereafter if agreed upon by all parties. In the absence of such waivers and/or reimbursements, the applicable Fund's total return and yield would be lower. The Funds have a maximum front-end sales charge of 5.00%. Sales charges are waived for clients of investment intermediaries, or for those who purchase shares via no-transaction-fee platforms.***

2022 had the distinction of being the worst absolute return year for U.S. equities since 2008 and we were disappointed that the Fund underperformed the S&P 500 in both the quarter and the year. 2022 was a year when the value style of investing absolutely trumped the growth style and this was evident in both the quarter and full year. In 2022, the Russell 3000® Value Index was only down -8.0% relative to a decline of -28.9% for the Russell 3000® Growth Index, nearly a 21% differential and the largest since 2000. The Fund is run as a "growth at a reasonable price" (GARP) strategy, as we seek to own high quality, secular growing businesses, which puts us square in the growth style of investing, but certainly not aggressive growth or "growth at any price". Fortunately, our adherence to quality kept us out of the more speculative segments of growth equities (unprofitable companies and untested business models) which performed the worst this year after being the hottest parts of the market in 2021. The outperformance of value-over-growth was most pronounced in the Energy sector, which was up +59%, the best year ever for the sector and just remarkable relative to the overall market return. It might surprise you that oil prices basically round tripped in 2022 as they shot up after the onset of the Ukrainian conflict, but then came back down over the balance of the year. We would consider the performance of the Energy sector to be an extreme outlier event that is unlikely to recur, especially to this magnitude. The sector compromised about 3% of the benchmark at the start of the year and with the outperformance is now about 5% of the index. The Fund did not own any names in the Energy sector, which alone cost the Fund 71 basis points (bps) in relative performance for the quarter and 219 bps for the year. We generally don't find business models in the sector that have significant economic moats, sustainably earn high returns on invested capital or exhibit secular growth characteristics. Over a much longer period (5-10 years), we believe avoiding low quality, secularly challenged business models will be a tailwind to performance. Drilling further into performance from a traditional attribution perspective, the Fund's under performance in the fourth quarter relative to the S&P 500 was mostly driven by negative sector allocation, with a modest drag from stock selection. The Health Care, Industrials, and Energy sectors were notable detractors to performance, partially offset by positive contribution in the Consumer Discretionary and Financials sectors. We will discuss individual holdings impact on fourth quarter performance in a moment.

Financial markets started 2022 with optimism around a global economic recovery, as the effects of the pandemic were receding. As it turns out, it was a year where macroeconomics and geopolitics dominated the investing landscape, but in a more negative way than anyone would have forecasted at the beginning of the year. Surging inflation and the corresponding rise in interest rates was the financial story of the year, both in the U.S. and around the world. The outbreak of the war in Ukraine dominated headlines, as the economic, geopolitical, and human costs of the conflict will have long-lasting consequences. Optimism quickly turned to pessimism as the year unfolded and we now begin 2023 with a highly uncertain landscape. As a reminder, often some of the best long-term investing opportunities occur at points of maximum pessimism and uncertainty. While we wouldn't opine that we are at that type of extreme just yet, it pays to be somewhat contrarian when making asset allocation decisions and stay focused on the long-term.

In reviewing 2022 financial markets, there were very few places to hide from negative returns. Most notably, domestic stocks and bonds both declined significantly, as the diversification benefits from holding a mix of stocks and bonds didn't work. The yield on the U.S. 10-year Treasury rose from 1.50% to 3.88%, one of the more dramatic historical increases and on the heels of fairly low interest rates for over a decade, post the global financial crisis of 2008-2009. The surge in inflation that we first saw last year persisted to levels that the U.S. had not seen since the early 1980's! The Fed's belief that inflation would be "transitory" had to be abandoned in favor of an aggressive rate hiking cycle to try and dampen the Consumer Price Index (CPI) which ran into +9% year over year territory mid-summer. The policy mistake of waiting too long to raise rates along with unprecedented fiscal stimulus in 2020 and 2021 ultimately were two principal factors that led to the inflation problem we experienced this year. Lagging supply chain issues and the Ukrainian war threw fuel on the fire. We believe that we've likely seen peak inflation and it will be tamed in 2023, although it may be difficult to get all the way down to the Fed's 2% long-term target by year end. The rate hikes are already having an impact on economic growth and consensus is for some level of economic contraction this year. We tend to agree that it does seem more likely than not that the U.S. will enter a recession, although we have a hard time opining on the hard vs. soft landing debate, i.e. the severity and duration of a downturn. The starting point of an extremely tight domestic labor market (mid 3% unemployment) might make inflation stickier than it would otherwise be in a typical downturn, but also make a recession less impactful to the average worker in terms of job losses. There are few similar points in past economic history to draw upon, making it even more difficult for economists to forecast what's most likely to happen in the next 12-24 months.

Outside the U.S., the macro environment appears to be far worse. Europe is struggling with the surge in energy prices as a result of the end of cheap natural gas from Russia and appears to be in a fairly severe recession. China, the world's second largest economy, has done a 180 degree move, largely abandoning its zero Covid policy in favor of reopening with minimal restrictions. Its massive population has less natural immunity and vaccine protection, so it's questionable how this will play out over the next couple of months. If China can endure some difficult initial months, the reopening could be positive for the global economy later this year. Emerging markets around the world are also struggling with the global surge in inflation and will likely struggle along with developed economies. When you add it all up, in many ways, the U.S. today feels like the "best house on a bad block" as we enter the new year.

U.S. corporations enter this uncertain period in relatively good shape, and we see signs that they are proactively taking steps for a recession. Earnings recovered substantially in 2021 off 2020's pandemic depressed levels and grew an estimated additional 3% in 2022, largely driven by strength in the Energy sector. Forward estimates have been declining in the second half of 2022 and we believe that 2023 estimates are likely still too high. We wouldn't be surprised to see forward estimates fall further during the fourth quarter earnings season that is about to get underway. Wall Street analysts are notorious for missing inflection points and bottom-up estimates are likely still too optimistic. With an estimated 3% growth in S&P 500 earnings in 2022, the markets Price to Earnings (P/E) ratio declined nearly 22% (about 5 points), which can largely be attributed to the rise in interest rates and worries about future earnings power. Long-term expectations for interest rates influences the discount rate on which stocks are valued, with P/E multiples being loosely defined as the inverse of the long-term discount rate, adjusted for a 3-4% equity risk premium. When we penned this letter last year, we saw downside risk in the market's historically high multiple and we certainly saw that play out in 2022. While there could be more downwards bias to the market multiple, depending on where interest rates move, underlying earnings power for 2023 and 2024 could be more influential on where market indexes go this year. We think quality companies with resilient business models that have secular growth stories could be more resilient than cyclicals, but time will tell. Above average volatility and so called "bear market rallies" seem highly likely.

As bottom-up equity investors, we always have some hesitation to opine on "the market" as if it's one homogenous entity, yet we routinely follow this standard industry practice. Last year we told you that both our macro and bottom-up process found that the market was quite expensive overall. We also mentioned that we were not finding bargains in individual companies to be overly abundant, particularly in our quality growth universe. After a nearly 20% decline in the U.S. equity market this year, we are finding more opportunities and better risk-rewards today, although not to the levels where we get so excited that we want to "back up the truck" and advise investors to allocate significantly more money to equities. Today a bottom-up analysis of the Fund shows a median reward-to-risk ratio, just under 2x, which shows more upside than downside, but not the levels of 3x or more that really get us excited. Macro market predictions are very difficult to make with any hopes of being consistently accurate, so we'll remain "macro aware" but keep our efforts principally focused on bottom-up stock selection. We have built a concentrated, yet diversified, portfolio of high-quality individual companies that we believe will 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.

**RMB Fund**
**FOURTH QUARTER 2022 CONTRIBUTION REPORT**
*Ranked by Basis Point Contribution*

| | Basis Point Contribution | Return |
|---|---|---|
| **Top Contributors** | | |
| JPMorgan Chase & Co. | +67 | +29.49% |
| Booking Holdings Inc. | +60 | +22.64% |
| Chubb Ltd. | +59 | +21.76% |
| Visa Inc. | +59 | +17.22% |
| MarketAxess Holdings Inc. | +55 | +25.72% |
| **Bottom Detractors** | | |
| Amazon.com Inc. | -95 | -25.66% |
| Catalent Inc | -58 | -37.80% |
| Alphabet Inc. | -42 | -7.76% |
| Entegris Inc. | -23 | -20.90% |
| Apple Inc. | -23 | -5.83% |

*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. 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.*

## Contributors and Detractors

JP Morgan Chase & Co. (JPM +29.49%) was the Fund's largest contributor in the fourth quarter. The stock made a strong comeback in the quarter, although was still down about 15% for the year. Third quarter earnings reported in October provided evidence that the pressure we've seen this year on net interest margins and corresponding net interest income may have peaked towards the end of the year. Forward earnings estimates rose modestly post the quarter, as CEO Jamie Dimon was optimistic that returns for the bank could hold up reasonably well even if we have a recession in 2023. JPM has been aggressive in taking reserves for future credit issues and is widely known for its "fortress balance sheet". While large cap banks are a group where it's hard to distinguish amongst the constituents, we think JPM is the best managed company in the space. We did take a modest trim in the name during the quarter to partially fund another purchase, but believe JPM is a core name to own for years to come.

On-line travel provider Booking Holdings Inc. (BKNG +22.64%) was the Fund's second biggest contributor in the quarter. The stock benefited from a strong third quarter report, as booking volumes continue to recover from the pandemic's impact on travel and are now running ahead of pre-pandemic (2019) levels. We believe consumer travel is an area that can continue to thrive over the next few years as consumers mindsets to have more personal experiences instead of purchasing physical things could be a lasting secular trend. In addition, after abandoning its zero Covid policy, China's reopening for citizen's outbound global travel could be a nice tailwind after being virtually zero for almost three years. Booking clearly isn't immune to economic risk, as travel is a discretionary purchase, but could hold up better due to some of the longer secular tailwinds and pent-up demand. Similar to JPM, we did take a moderate trim to the position late in the quarter on the strength in the stock but continue to maintain an average sized position.

On the negative side of the performance ledger, we had names adversely affecting the Fund's overall return. Amazon.com Inc. (AMZN -25.66%), a name that we first bought late in the second quarter, was the Fund's largest detractor. Our long-term investment thesis on Amazon is two-fold. One, Amazon Web Services can continue to grow at an attractive rate and generally maintain margins for the next few years. Two, after over-investing during the pandemic years, the core retail business can be rightsized over the next several quarters to begin generating a modest level of profitability. From there, retail can eventually earn margins closer to what high volume brick and mortar stores achieve a few years out. This thesis will require some patience, but if these two areas play out, Amazon can achieve substantial earnings power above what Wall Street consensus currently projects. The stock worked against us in the quarter, as the third quarter earnings report was subpar. Despite the stock not working in our favor, we believe our long-term thesis remains valid, as we acknowledged when we initially purchased the stock, that it would likely be a bumpy ride. Amazon is a medium-size position at year end and we look to add to it over time.

## Outlook

U.S. corporate earnings, which is the biggest long-term driver of stock prices, recovered substantially in 2021, but plateaued in 2022 and are likely to contract in 2023, if the economy falters as expected. Valuations on stocks look neither expensive nor cheap compared to history. Today the market is trading at 16.7x 2023 and 15.1x 2024 earnings estimates versus a very long-term average around 16x. As we mentioned earlier, we believe there could be further downward revisions to current estimates, which would make the forward multiple higher. Typically, it's hard for stocks to sustainably rise when forward estimates are being lowered, but once the market feels like they've reached bottom, and better growth lies ahead, it can rally. The stock market is a forward-discounting mechanism after all. Interest rates, and how they affect the discount rate, is another important factor in market valuations. With the 10-year Treasury well off its fourth quarter peak, perhaps market rates have peaked for this cycle. Another rate phenomenon worth mentioning is the spread between short-term rates and long-term rates today. Currently the 10-year rate is significantly higher than the 2-year or 3-month rate, what is referred to as an inverted yield curve. This typically signals that a recession is on the horizon and it's hard to argue with what the bond market implies. Whether this means that we will actually get outright rate cuts from the Fed later this year or they need to hold them high to squash inflation is a central debate to where market indices may head in 2023. No matter what ultimately happens, we believe there is a fair amount of market volatility in both directions as this plays out.

As always, while we may opine on our view of the overall market, we do not pretend to have any ability of predicting where the market is heading in the short or intermediate term. It's a very difficult, if not impossible, task to add value by timing the market. We believe it's prudent to keep return expectations modest for the next few years, although after the market decline in 2022, the risk-reward over a 3-5 year horizon has improved. As a reminder, the starting point makes a big difference as to how returns compound. We continue to focus the Fund's efforts on owning companies with what we believe are 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 abundant, but we will continue to use our bottom-up search to optimize the Fund. If we adhere our disciplined investment process and manage portfolio risk, we aim to continue to add value to market returns in subsequent years.

We'd like to wish everyone a happy new year and a sincere 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

**TOP 10 HOLDINGS AS OF 12/31/22**

| Company | % of Assets |
|---|---|
| Microsoft Corp. | 7.49% |
| Alphabet Inc. | 5.18% |
| Visa Inc. | 3.94% |
| Apple Inc. | 3.74% |
| Danaher Corp. | 3.56% |
| Keurig Dr Pepper Inc. | 3.18% |
| CDW Corp. | 3.05% |
| Dollar General Corp. | 3.02% |
| Diageo PLC | 2.94% |
| UnitedHealth Group Inc. | 2.84% |

*Holdings are subject to change. The above is a list of all securities that composed 38.94% of holdings managed as of 12/31/2022 under the RMB Fund ("Fund") of RMB Capital Management, LLC ("RMB Capital") based on the aggregate dollar value. This list is provided for informational purposes only and may or may not represent the current securities managed. It does not represent all of the securities purchased, sold, or recommended for advisory clients (under the Fund or otherwise) during the calendar quarter ending 12/31/2022. The reader should not assume that investments in the securities identified and discussed were or will be profitable. For a complete list of historical recommendation for the Fund, please contact RMB Investors Trust at 855-280-6423.*

*The opinions and analyses expressed in this letter are based on RMB Capital Management, LLC's ("RMB Capital") research and professional experience 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 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 party of your investment. This information is confidential and may not be reproduced or redistributed to any other part 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 your account. The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.*

*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.*

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

***The Consumer Price Index (CPI)*** *is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.*

*The **price-earnings ratio** (**P/E ratio**) relates a company's share price to its earnings per share. A high P/E ratio could mean that a company's stock is over-valued, or else that investors are expecting high growth rates in the future.*

*The **Russell 3000® Index** is a market-capitalization-weighted equity index that seeks to track 3000 of the largest U.S.-traded stocks.*

*The **Russell 3000® Value Index** measures the performance of the broad value segment of the U.S. equity value universe.*

*The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe.*

***Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For complete information about the Fund, including a free prospectus, please contact RMB Investors Trust at 855-280-6423, or visit the website at www.rmbfunds.com. The prospectus contains important information about the funds, including investment objectives, risks, management fees, sales charges, and other expenses, which you should consider carefully before you invest or send money.***

*All investing involves risk including the possible loss of principal. The RMB Fund invests in larger, more established companies, which may not respond as quickly to competitive challenges or have higher growth rates than smaller companies might have during periods of economic expansion. There can be no assurance that the Fund will achieve its investment objective.*

*Foreside Fund Services, LLC, Distributor*