# RMB Fund

RMB FUNDS

## Portfolio Update: First Quarter 2023

During the first quarter ending March 31, 2023, the RMB Fund (the "Fund") increased, +6.69% net of fees, modestly trailing the +7.50% increase in the S&P 500 Index return for the for the same period.

| | Quarter | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|---|---|---|---|---|---|---|---|
| RMBHX | +6.69% | +6.69% | -9.11% | +18.43% | +11.01% | +10.32% | +10.39% |
| S&P 500 Index | +7.50% | +7.50% | -7.73% | +18.60% | +11.19% | +12.24% | +11.27% |
| RMBHX (Load Adjusted) | +1.35% | +1.35% | -13.67% | +16.43% | +9.88% | +9.75% | +10.27% |

***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.***

After a difficult year for domestic equities in 2022, 2023 got off to a strong start for the market on an absolute basis. In many respects, the first quarter was an inverse of last year, as the best performing parts of the market were the exact opposite of what performed poorly in 2022. Most notably, the growth style of investing significantly outperformed the value style, as the Russell 3000® Growth Index was up +14.3% vs a +0.9% gain for the Russell 3000® Value Index. As we penned last quarter, 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 far from aggressive growth or "growth at any price." Our style was more in favor this quarter, but unfortunately, we had one standout holding that detracted from overall performance, First Republic Bank (FRC). The Fund would have outperformed nicely had we not had exposure to this bank. Given its significance, we devote a more detailed review of it shortly. From a traditional attribution perspective, the Fund's under performance in the first quarter relative to the S&P 500 was all driven by negative stock selection, with a positive contribution from sector allocation. The Consumer Discretionary, Information Technology, and Communication Services sectors were notable detractors to performance, partially offset by positive contribution in the Health Care, Energy, and Utilities sectors. Despite our ownership of First Republic, the Financials sector as a whole ended up being a fairly neutral contributor to quarterly performance.

The first quarter of 2023 has continued the trend we saw last year where macroeconomics and geopolitics have continued to dominate the investing landscape, with the addition last month of a domestic banking crisis that came seemingly out of nowhere. Interest rates rose in the first couple of months as the markets continued to digest the Federal Reserve's ongoing battle with inflation but took an extremely sharp turn lower in March. The failure of Silicon Valley Bank (SIVB) and Signature Bank (SBNY), (which will be the second and third largest bank failures on record) shocked markets, sending interest rates lower. The bond market is now indicating that the Fed will have to stop raising rates soon and will eventually have to start cutting them later this year or early 2024, as the probability of a more severe recession (i.e., "hard landing") has grown. While fears of contagion in the banking sector based on Fed actions have lessened late in the month and into the second quarter, the situation remains highly fluid. In some ways the rapid decline in market interest rates has taken some pressure off the banks and losses in their security portfolios in the short term. Banks are seasonally the first earnings reports to be released each quarter, so the upcoming earnings season and associated conference calls for the industry will be highly

scrutinized. From a bigger picture perspective, a banking crisis and tighter lending environment are highly deflationary and will likely be another factor helping curtail inflation over the rest of the year. One must also remember that the Fed's rate hikes are only now starting to impact the real economy, as a 12-18 month lag is typical. The Fed has already made a big mistake by not increasing rates a year earlier than it should have (in early 2021) and there is fear that it may now make a second mistake and overtighten into a recession. Herein lies the big debate between what the bond markets are stock markets are implying, a fair dichotomy between the two. It appears that the bond market is pricing in a fairly high probability of a meaningful recession, while the stock market has been more benign, implying a more soft-landing scenario. While it's important to remind investors that the stock market is not the economy, the impact on a prolonged downturn on corporate earnings in 2023 and 2024 doesn't appear to be fully priced in today. As bottom-up equity investors, we always have some hesitation to opine on "the market" as if it's one homogenous entity, but we aren't finding a tremendous number of underpriced names in our high quality, GARP universe today.

## Contributors and Detractors

Microsoft Corp. (MSFT) was the Fund's largest basis point contributor in the first quarter, bouncing back from a sub-par 2022. The stock benefited from a respectable fourth quarter earnings report, as well as the tailwind that large cap technology stocks have received so far this year. While Microsoft's growth has clearly slowed from unsustainable levels during the pandemic and could slow a bit further this year if corporate technology spending comes under further pressure, we believe it is well positioned to gain wallet share over time. The Azure business should continue to benefit from the decade plus long secular shift of computing workloads moving to the cloud. The core enterprise software business has a dominant competitive position, although is slower growing. We believe that earnings can compound over the next several years at a mid-teens growth rate under CEO Satya Nadellas' strong stewardship. Capital should be reallocated wisely and we expect a growing dividend and consistent share repurchases to enhance value for long-term owners like ourselves. The stock remains the Fund's largest position at quarter end. Bond trading software provider MarketAxess Holdings Inc. (MKTX) was the second largest contributor in the quarter, although it did pull back a decent amount post quarter in early April. MarketAxess is a long-term play on the secular shift towards electronic trading of bonds away from traditional "over the counter" markets. It is also a cyclical beneficiary of more volatility around interest rates and money flowing towards fixed income investments. We continue to like the multi-year outlook for MarketAxess's secular opportunity and wouldn't be surprised to see the cyclical tailwind of its growth story stay elevated in the next few quarters. The stock remains in the top third of position sizes at quarter end.

On the negative side of the performance ledger, we had names adversely affecting the Fund's overall return. As mentioned earlier, we suffered heavily from our ownership of First Republic Bank (FRC) and it was by far the largest detractor in the first quarter, costing the Fund 167 basis points despite the position size being on the smaller end to start the year. First Republic got swept into the banking crisis as a run-on deposits occurred in a matter of days after cross town peer Silicon Valley Bank (SIVB) failed. While First Republic was quite different than Silicon Valley in so many respects, it also had a high percentage of its deposits above the $250,000 FDIC deposit insurance limit as well as an interest rate mismatch in its asset-liability duration. In addition, it had heavy ownership of U.S. Treasuries in its held to maturity security portfolio, which lost value when interest rates rose dramatically. In normal times, this wouldn't be the end of the world, but the banking industry is a business of confidence and when your customers quickly lose confidence (fairly or unfairly), it can destroy a historically strong franchise in no time. We sold our stock after realizing just how strong a run on deposits First Republic had experienced, acknowledging it no longer fit the Fund strategy. Ultimately it's very difficult to put probabilities on whether First Republic survives from here. Either way, the equity is likely permanently impaired and too speculative to own within the construct of the Fund's mandate. After such a gut-wrenching experience and given our devotion to owning very high-quality business models, we have had some introspection from owning First Republic. We will likely have more takeaways over time, but today we have a few. One, outlier events happen more often than the human mind typically comprehends. If you pull up a long-term chart of FRC stock from its 2010 IPO, you will see that First Republic was a consistent compounder

of value with above average growth and a high-net-worth client base that was the envy of peers. How could that evaporate almost overnight? Feels like a black swan event to us.

The second lesson learned (or enforced) is that banks' business models are all based on confidence of stakeholders in the enterprise. This is why banking is such a highly regulated industry and crises are scary when they occur, because, unlike most other businesses, the value of the equity isn't anchored to hard assets or intellectual property. In retrospect the Great Financial Crisis of 07-09 was more of a slow-moving train wreck for the industry compared to what we've witnessed in March. The third lesson learned is that when you have an unprecedented rise in interest rates in both speed and magnitude, unintended consequences throughout the economy (not just banking) may be deeper and wider than the more immediate impact we've seen so far. After a decade of abnormally low interest rates ("cheap money"), how many other distortions are out there that we are just starting to uncover? This is an idea we are still wrestling with as there certainly could be more problems to unfold in coming quarters as a result of the Fed's unprecedented rate increases.

**RMB Fund**
**FIRST QUARTER 2023 CONTRIBUTION REPORT**
*Ranked by Basis Point Contribution*

| | Basis Point Contribution | Return |
|---|---|---|
| **Top Contributors** | | |
| Microsoft Corp. | +151 | +20.52% |
| MarketAxess Holdings Inc. | +109 | +40.59% |
| Apple Inc. | +99 | +27.11% |
| Alphabet Inc. | +95 | +17.57% |
| Booking Holdings Inc. | +78 | +31.62% |
| **Bottom Detractors** | | |
| First Republic Bank | -167 | -89.04% |
| Dollar General Corp. | -44 | -14.53% |
| UnitedHealth Group Inc. | -31 | -10.54% |
| Chubb Ltd. | -29 | -11.60% |
| Danaher Corp. | -17 | -4.94% |

*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.*

Dollar General Corp. (DG), a general merchandise retailer, was the Fund's second largest detractor to performance. The stock was weak after a moderately disappointing fourth quarter earnings report, some negative press, and the overall headwind from a "risk on" market. Dollar General's execution in the last few quarters hasn't been up to its historical high standards, but we don't view its issues as structural and should be temporary. We believe the company will return to a more consistent and predictable growth pattern later this year or early next year. Historically, Dollar General's business has not been impacted all that much in either direction from the general state of the economy, so we like its relatively defensive position if we are indeed heading into a recession. We also think management has the chops to fix some of the current issues, which should improve margins and free cash flow conversion. The stock is in the top half of the Fund at quarter-end and we may increase our position size upon any further weakness.

## Outlook

U.S. corporate earnings, which are the biggest long-term driver of stock prices, appear to have peaked in 2022 and at best will be flattish in 2023, but more likely down a bit, depending on how the macroeconomy develops over the balance of the year. First quarter earnings, which are about to start being reported as we write this letter, are expected to be down nearly 7% year over year, according to FactSet. The outlook for 2024 is also quite murky, but it's hard to make a case for much improvement from 2023 based on what we see today. We believe the bias towards estimates for both years remains lower, rather than higher. Typically, it's difficult for stocks to sustainably rise when forward estimates are being lowered. Market interest rates in their influence on the long-term discount rate is the other major variable to equity valuations. The 10-year Treasury yield fell dramatically in March with the onset of the banking crisis, which provided a near-term tailwind to stocks

and led many to believe that the Fed is nearing an end to its rate hiking cycle. While the Fed's fight against inflation isn't complete, there are signs that inflation is well past its peak and will continue to ease over the next couple of quarters. There is no better cure for inflation, albeit painful, than a good old-fashioned recession, as demand pressure pulls back and labor becomes more plentiful. With the yield curve being inverted, the bond market is signaling economic troubles ahead, where the Fed will have to eventually start rolling back its aggressive rate hikes of the past year. All this sounds like a recipe for a fair amount of market volatility ahead of us.

As always, while we may opine on our view of the market as a whole, we do not pretend to have excess skill in 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 think it is prudent to keep return expectations modest for the next few years, although after the market decline in 2022, the risk-reward for domestic equities over a 3-5 year horizon has improved from where we ended 2021. We continue to focus the Fund's efforts on owning companies with what we believe to be 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 are not overly abundant today, but we will continue to use our "bottom-up" search to optimize the Fund. If we adhere to our disciplined investment process and manage portfolio risk, we aim to add value to market returns in subsequent years. We'd like to extend 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 3/31/23

| Company | % of Assets |
|---|---|
| **Microsoft Corp.** | 8.55% |
| **Alphabet Inc.** | 5.78% |
| **Apple Inc.** | 4.51% |
| **Visa Inc.** | 4.06% |
| **Amazon.com Inc.** | 3.24% |
| **CDW Corp.** | 3.16% |
| **MarketAxess Holdings Inc.** | 3.16% |
| **Booking Holdings Inc.** | 3.08% |
| **Keurig Dr Pepper Inc.** | 2.98% |
| **The Cooper Companies Inc.** | 2.91% |

*Holdings are subject to change. The above is a list of all securities that composed 41.42% of holdings managed as of 3/31/2023 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 3/31/2023. 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*