RMB FUNDS

RMB MENDON FINANCIAL FUNDS

Commentary: August 2017

The team took advantage of the capital markets lull we have come to expect in August by visiting companies in California, Kentucky, Pennsylvania, South Carolina, Texas, and Washington. The distinct economic drivers in each of these markets remain strong and, fundamentally, banks continue to be well positioned to benefit. Late into the month (and certainly into September), hurricanes became a major focus.

Of interest were meetings held in Dallas, TX shortly after Hurricane Harvey. At these meetings, affected management teams were up to date on the well-being of all employees in Houston and the surrounding communities. Next areas of concern were how these banks could help the affected locations, branch network conditions, and, finally, potential exposure caused by Harvey. Interestingly, one CEO of a Texas bank spent the prior day on a boat, rescuing people from their homes (12 people, 2 dogs, and 1 cat). Although Harvey created massive property damage, the loss of life, while still tragic, was orders of magnitude less than Hurricane Katrina. Other than the government, the insurance industry will bear the largest brunt of the costs to rebuild America's fourth-largest city. The uncertainty surrounding the extent of insured losses plus the then unknown path of Hurricane Irma caused most property and casualty insurers to trade lower in the month.

Harvey, and now Irma, will impact the local economies where they created mass devastation, but even together are unlikely to have an impact on the national economy. After Hurricane Katrina, the Fed wrote the following in its September 20, 2005 release: *"Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term…While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat."* We have no reason to believe that this time will be any different and that affected parts of the country are expected to follow a similar economic path to recovery.

Going forward for Houston, banks are likely to increase loan loss reserves due to massive property losses in the third quarter. Auto sales will be brisk, business interruption and property insurance should keep operating businesses running while they are rebuilding, and massive amounts of labor will likely move into Houston, removing the oversupply of apartment stock. This infrastructure spending may create a dynamic environment for the South Texas economy for years to come. We believe deposits will grow at an accelerated pace as insurance claims are paid, fueling economic growth. This is the third major hurricane hitting Houston since 2000, and each time the economy came back stronger than it was prior to the storm. We anticipate similar outcomes for the areas affected by Irma as well.

In addition to natural disasters, we noted in our travels the amount of institutional/permanent capital that is involved in commercial real estate (CRE) finance across the country. We spend an inordinate amount of time on bank-owned CRE, so we are always interested in gaining additional insights on the subject. Whether it is debt funds, life insurance companies, or sovereign wealth funds, alternative sources of capital seem to be fueling much of the large-scale commercial projects that we see in various markets. In an August meeting with a commercial real estate broker, when asked what investors should be concerned with regarding banks and CRE, the broker responded, "Be concerned that banks are NOT being more aggressive." While we are perfectly fine with that scenario, we continue to monitor the vertical closely, working to parse the sub-sectors within the asset class to find poorly understood drivers of risk and reward.

Looking outside the U.S., global tensions impacted equity and bond markets in August, but volatility remains near historical lows. It is hard to reconcile that the potential use of nuclear weapons by a mad despot is causing a flight to quality in the bond market (causing yields to compress), while broad equity indices continue to be largely unaffected. This dislocation is worth noting and we are fortunate to be invested in a sector of the market that is trading at a relative discount to historical levels as opposed to at a premium. That said, in the long/short mutual fund, we are addressing this dislocation through our continued use of options to protect against downside risk. We recognize the defensive positioning of the options is detracting from results; however, recent events discussed above serve as a reminder of the importance of insurance.

Within the financials sector, both large- and small-cap banks gave up ground to the broader market in August, as political uncertainty remained a certainty. We think it is very important that small/mid-cap banks continue to have reasonable near-term catalysts that, upon manifestation, should provide material upside from current low relative valuations. The industry's strong fundamentals remain unchanged, yet many stocks in the group are down materially from their 52-week highs. Lest we forget how outlooks can change, we'll close with one more excerpt from the September 2005 Fed minutes: *"The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3-3/4 percent."*

Again, we want to thank all of our partners for your continued trust and support. As always, feel free to reach out with any questions or comments.

The KBW Bank Index is an unmanaged index comprised of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The index includes dividends reinvested.

The NASDAQ Bank Index includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark (ICB) as Banks. The index includes dividends reinvested.

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 Mendon Financial Services Fund and the RMB Mendon Financial Long/Short Fund are sector funds. These types of funds may be susceptible to factors affecting their industries, and the funds' net asset values may fluctuate more than a fund that invests in a wider range of industries. Because these funds concentrate their investments in one sector of the economy (financial services) and invest in derivative securities (currently RMB Mendon Financial Long/Short Fund engages in short sales of equities), investors should consider the risk that the funds may experience greater volatility than funds that invest across several sectors.

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