RMB Mendon Financial Funds

Commentary: May 2018

The passage and signing of the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155 or the "Crapo bill") was the most significant event of the month that should affect the group for years to come. Although we have discussed this legislation previously, we think it's worth reviewing again to impress upon our investors just how important it is in the next step of the industry's evolution. Prior to the bill's passage, any U.S. bank at or above $50 billion in assets was considered a Systemically Important Financial Institution (SIFI) and was subject to the same regulations and examination standards as the largest banks in the world. This regulatory framework dissuaded banks from considering crossing that particular threshold, either organically or via acquisition. Since the passage of Dodd Frank, only two banks crossed $50 billion, while the number of banks between $20 billion and $50 billion doubled. KBW President, Tom Michaud, said the following during a CNBC interview earlier in the year, *"It is a traffic jam of banks that aren't growing, in part, because of that $50 billion barrier. If that $50 billion barrier is removed, I think you'll see more regional champions stand up to be able to compete with the bigger banks."*

May supplied us with what we believe is a preview of things to come as several $1 billion-plus transactions hit the tape – the highest monthly aggregate transaction value since August 2012. The largest transaction was announced before the House approved the Senate's measure, giving us increased confidence in the likelihood of the bill passing and bringing back "Merger Monday" in Bank-Land. In that transaction, Fifth Third Bancorp (FITB) acquired MB Financial, Inc. (MBFI), surprising us and the market. MBFI was one of two remaining dominant community bank franchises in the Chicago region, and FITB was a first mover in acquiring a company whose footprint is not easily duplicated. This promises to be the first of many larger-scale transactions, although FITB prized MBFI more than the market did for the combined institution, which punished the eight-plus year tangible book value (TBV) earn-back period. Since the financial crisis, TBV earn-backs less than five years have been the norm, although we suspect there could be a re-rating as time passes and the availability of quality franchises with meaningful market share wanes.

The other $1 billion-plus transactions were Cadence Bancorporation's (CADE) $1.4 billion purchase of State Bank Financial Corp. (STBZ) and Independent Bank Group, Inc.'s (IBTX) $1 billion purchase of Guaranty Bancorp (GBNK) – interestingly, in both cases the purchaser is headquartered in Texas. Through these acquisitions, CADE's footprint now expands to Georgia (and Atlanta, specifically) and IBTX materially increases its density in Denver, creating a high-performing bank in the markets of Dallas, Houston, and Denver. While it is unusual for Texas banks to expand outside of the state due to the fertile legacy markets, adding high-quality banks in Colorado and Georgia definitely improves the ultimate value of these franchises.

We do not intend to draw a line in the sand, but we do think larger mergers and acquisitions (M&A) are likely to come. FITB is the first regional bank to re-engage in M&A in quite some time and we think others will follow, scooping up select franchises in growing markets that cannot be replicated. While many will criticize the price FITB paid for MBFI, it now becomes the second-largest bank in Chicago (behind JPMorgan Chase & Co., who gained its stature by acquiring Chicago's Bank One Corporation), materially increases its core deposits, and gains a very strong middle-market commercial lending platform in the third most populous city in the U.S.

Going forward, scale has never been more important, the value of cost savings and synergies are at a high, and regulators want to keep the industry competitive. There is certainly pent-up demand and we hope the recent Crapo bill will allow for the return of animal spirits among historically active acquirers. We believe future transactions will create highly profitable combinations in very specific areas of the country. As of now, these transactions are creating value; however, we acknowledge that it may not always be so and will position accordingly when we feel this shift approaching.

The other phenomenon that is increasing in frequency is the amount of initial and secondary public offerings coming to market. Predictably, the improvement in bank valuations is incenting more companies to access the public markets. The quality of these transactions varies widely and we believe our institutional memory and sector expertise provides us with a real advantage when picking superior investment opportunities among many of the problematic strategies of the past being repackaged as new investment concepts.

In closing, we remain extremely excited about the opportunity set in front of us and our portfolio's ability to create return in multiple market environments.

As always, we welcome your feedback, comments, and questions.

The opinions and analyses expressed in this newsletter 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 newsletter. 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 newsletter. The information and data in this newsletter 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 party without the permission of RMB Capital.

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.

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 KBW Bank Index [BKX; PHLX/KBW Bank Index] is an unmanaged index comprised of 24 geographically diverse stocks representing national money center banks and leading regional institutions. One may not invest directly in an index. The KBW Bank Index performance data quoted above are total return numbers.

The NASDAQ Bank Index includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark (ICB) Banks. The NASDAQ Bank Index performance data quoted above are total return numbers.

Foreside Fund Services, LLC, Distributor