RMB Fund

RMB FUNDS

Portfolio Update: Second Quarter 2019

The RMB Fund (the "Fund") gained +5.21% net of fees in the second quarter of 2019, ahead of the +4.30% increase in the S&P 500 Index for the same period. From a traditional attribution perspective, the outperformance in the quarter was primarily driven by sector allocation with minimal contribution from stock selection. Consumer discretionary and health care were the most noteworthy contributors to the outperformance relative to the benchmark. We will discuss individual holdings impact on performance in a moment.

	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
RMBHX	+5.21%	+23.73%	+14.72%	+16.52%	+9.26%	+13.76%	+10.47%
S&P 500 Index	+4.30%	+18.54%	+10.42%	+14.19%	+10.71%	+14.70%	+11.28%
RMBHX (Load Adjusted)	-0.04%	+17.55%	+8.98%	+14.55%	+8.15%	+13.18%	+10.34%

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 1.25%.

The Fund's investment advisor, RMB Capital Management, LLC, has adapted a contractual expense limitation agreement for each fund through May 1, 2020, 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.

The second-quarter market environment was a continuation of the rebound from the late 2018 selloff with most major indexes approaching or exceeding new all-time highs. Keeping with last year's storyline, domestic headlines continued to be dominated by the trade war between the U.S. and China, with the pendulum swinging between optimism and pessimism around the likelihood of an eventual deal. This overhang comes at a time that economic data continues to show more signs of slowing global growth. 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 are pointing to some deceleration post a very strong 2018. This slowdown has been reflected in the bond market with the 10-year Treasury yield falling 40 basis points from 2.41% to 2.01% in the quarter and down from 3.06% just three quarters ago. A flattish yield curve is telling us that the bond market is pricing in an increased probability of an economic recession over the next one to two years. The Fed has also taken a dramatic change in its tone with the market expectation for two to three 25-basis point *cuts* in 2019. Remember, it was only a year ago when consensus for the Fed policy direction was multiple *hikes* going forward. It's quite remarkable how quickly we've gone from a hawkish to dovish environment, and we'll get another update on Fed policy on the last day of July. Thus far, the stock market has applauded lower rates, outweighing slowing economic data and the higher recession risk implied by the bond market.

First-quarter earnings reports released in the second quarter saw revenues and earnings continue to surprise positively vs. low expectations, although year-over-year earnings growth for the market as a whole was actually negative. While there continues to be concerns under the surface about the sustainability of revenue growth and historically high profit margins, the market has largely shrugged this off thus far. With second-quarter earnings about to be reported as we write this letter, we harbor some concerns about the forward outlook for the second half of 2019 and 2020. Current consensus is for about 4% growth in operating earnings for the S&P 500 in the second half of 2019 (bringing the full year to only +3%), with 12% growth in 2020. These estimates have been slowly revised lower over the past few months, and we wouldn't be surprised to see them notched lower again after the current round of reporting. Estimates for 2020 particularly look overly optimistic at this point. Given high levels of uncertainty around global growth, 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 consistent 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. 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. 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 grow, and the bond market is sending a strong signal. 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 weakening 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 Fund's largest contributor in the quarter was Skyline Champion Corp. (SKY), a manufacturer of mobile homes and manufactured housing. The stock performed well following a solid fiscal fourth-quarter earnings report, despite tough industry conditions and adverse weather. The outlook provided for next fiscal year (March) was also very positive as the company believes it can outgrow the industry and continues to execute well on the synergies from the merger. We continue to like the stock although it is nearing our upside price target and is a mid-sized position at quarter-end. The second-largest contributor was MarketAxess Holdings Inc. (MKTX), an electronic trading platform for fixed-income securities. The stock rose as trading volumes grew at a healthy level aided by increased volatility in the bond markets as interest rates declined. We also are attracted to the longer-term secular growth story as fixed-income trading moves away from voice-based broker-dealer trading toward electronic exchanges, similar to what stocks have done over the past couple of decades. We continue to like MarketAxess's long-term secular growth opportunity, although acknowledge that the run up in the stock has led to a very expensive valuation. We will continue to evaluate the position size but want to be cognizant of tax consequences and what we still see as the longer-term earnings power of the company several years from now.

RMB Fund
SECOND QUARTER 2019 CONTRIBUTION REPORT
Ranked by Basis Point Contribution

	Basis Point Contribution	Return
Top Contributors		
Skyline Champion Corp. (SKY)	+86	+44.11%
MarketAxess Holdings Inc. (MKTX)	+80	+30.84%
Microsoft Corp. (MSFT)	+65	+13.98%
IHS Markit Ltd. (INFO)	+53	+17.18%
Cooper Companies Inc. (COO)	+50	+13.75%
Bottom Detractors		
Cognizant Technology Solutions Corp. (CTSH)	-43	-19.08%
Alliance Data Systems Corp. (ADS)	-42	-19.55%
Alphabet Inc. (GOOGL)	-33	-7.99%
SS&C Technologies Holdings Inc. (SSNC)	-27	-9.63%
Signature Bank (SBNY)	-19	-9.42%

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.

On the negative side of the performance ledger, we had a few names whose prices underperformed, adversely affecting the Fund's overall return. Cognizant Technology Solutions Corp. (CTSH), a large information technology consulting and business process outsourcing provider, was the Fund's largest detractor in the quarter. The stock declined after a very weak first quarter in which Cognizant's new CEO took down its intermediate-term outlook with little hope for a rebound in spending from its key financial service and health care end markets. We—and the market—were surprised by the magnitude of the problems within the business and decided to exit our position intra quarter. We reallocated the proceeds into higher-conviction ideas post our sale. Alliance Data Systems Corp. (ADS), a provider of private label credit cards and marketing services, was the second-largest detractor. The stock declined further after a lower reset to 2019 earnings guidance post the sale of their Epsilon marketing services segment. The strategic decision to sell this business is sound, and the earnings dilution from the sale should be somewhat temporary as debt paydown, stock buybacks, and corporate cost reductions will offset the lost earnings next year. That said, the messaging behind the disclosure wasn't optimal. Further, a surprise change in leadership was announced post the quarter in which ADS's long-time CEO will be departing the company. Our confidence in ADS as a long-term holding has been diminishing over the past few quarters, although we have held off selling the position given we believe the stock sells below intrinsic value, and we could get a better price with a little more patience. That said, we will continue to monitor the position.

Outlook

From when we last wrote you three months ago, market conditions have remained about the same with the addition of further declines in long-term interest rates and an increasingly accommodative Fed. Market volatility has dampened somewhat, although picked up late in the quarter heading into earnings season. The upcoming corporate earnings report season that is about to kick off will once again refocus the market back on individual company fundamentals, which we think are generally decent for U.S. companies, but we have some areas of concern. Inflationary pressures from a tighter labor market, overseas demand levels, and the shorter-term 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, consistent with the tone that we got last quarter. Near-term U.S. economic data points have generally been decent, although they have decelerated from first-quarter levels. Employment in the U.S. remains quite healthy with improving labor participation rates. However, with unemployment so low, increasing scarcity for skilled labor in various industries is a real problem as many job openings are going unfilled. Real wage growth and consumer confidence should continue to be positive for consumer spending. Consumers in the lower half of income levels should be healthier than they have been in recent years given rising wages and very low unemployment. Rising wages do present a challenge for corporate margins, which have been at or near peak levels. Business confidence remains at high levels, although well off peak, and we have seen some signs that capital investment is no longer accelerating. Much of this near-term slowdown and uncertainty could be attributable to the trade war with China, thus some type of resolution could improve the near-to-intermediate U.S. economic outlook. We can't ignore that 2020 is a presidential election year, and any type of stimulus to help the economy, including a trade deal, can have an impact on the election.

Overall, we have some reservations about the momentum in U.S. corporate earnings growth, which is the biggest long-term driver of stock prices. Most of the market believed 2019 earnings growth would slow dramatically as the lower corporate tax rate hit its first-year anniversary, but, as mentioned earlier, there are other sources of risks to revenue growth and margins. Over the past three quarters, market earnings estimates for 2019 have fallen from 10% growth to about 3% growth currently. The cycle of Wall Street earnings estimates being too optimistic and having to be ratcheted back is a recurring pattern that the market typically sees through, but this is still a major reduction in growth expectations. With the overall market multiple having re-inflated from 2018 year-end levels, it now sits a bit under 18x 2019 and 16x 2020. 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 Fund'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 after the recent run up, but we will continue to use our "bottom-up" search to optimize the Fund. 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

TOP 10 HOLDINGS AS OF 6/30/19

Company	% of Assets
Microsoft Corp. (MSFT)	5.10%
American Tower Corp. (AMT)	5.03%
The Cooper Companies Inc. (COO)	3.85%
Visa Inc. (V)	3.83%
Edward Lifesciences Corp. (EW)	3.45%
IHS Markit Ltd. (INFO)	3.45%
Alphabet Inc. (GOOGL)	3.44%
MarketAxess Holdings Inc. (MKTX)	3.16%
Morgan Stanley (MS)	3.11%
Apple Inc. (AAPL)	3.06%

Holdings are subject to change. The above is a list of all securities that composed 37.49% of holdings managed as of 6/30/2019 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 6/30/2019. 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.