

# Innovators

## Portfolio Update: Fourth Quarter 2023

During the fourth quarter ending December 31, 2023, the RMB Innovators Composite (the "Strategy") returned +21.96%, gross of fees, (+21.65% net of fees), compared to a +14.96% return for the Russell 2500<sup>®</sup> Software and Computer Services Index.

	3 Months	YTD	Since Inception
Innovators (Gross)	+21.96%	+70.71%	+21.69%
Innovators (Net of IM fees)*	+21.65%	+68.99%	+20.59%
Innovators (Net of IM & WM Fees)	+21.38%	+67.38%	+19.43%
Russell 2500 <sup>®</sup> Software and Computer Services Index	+14.96%	+27.05%	+9.31%

*Inception date: July 31, 2022. \*Note: Investment management fees are charged after a full quarter of performance, so there will be no difference in gross/net IM fees performance until that time. Please see the fee schedule listed below.*

*Performance for periods of greater than one year is annualized. Please see important disclosures at the end of this document. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. Data as of 12/31/2023. Investment management (IM) fees are charged for managed investment accounts, is intended to compensate the portfolio managers for their time and expertise for selecting investments and managing the specific strategy as well as other items, such as investor relations expenses and the administration costs. Wealth management (WM) fees are charged to cover the construction and management of a portfolio and the holistic wealth management services that a client has chosen beyond their investments including, but are not limited to, estate planning, tax strategies (and related services), risk management, financial planning, retirement planning, investment advice, and insurance/banking oversight services. These fees vary by client and for this presentation the highest possible wealth management fees has been applied in these calculations.*

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Equity markets finished a volatile year on a strong note as smaller cap companies led a robust year-end rally. Fueling this was a modestly improving earnings outlook and a sharp reversal of the interest rate increases, which had characterized the previous six months, as the outbreak of the Israel-Hamas conflict early in the quarter created global growth concerns. After briefly breaking through 5.0% for the first time since 2007 in mid-October, the U.S. 10-year treasury note fell sharply to finish the year at just above 4.0%.

As a disproportionate beneficiary of falling interest rates, the cloud software group, from which the Innovators holdings are selected, registered a particularly strong performance, +18% for the quarter. Drivers were group demand trends remaining stable and valuation multiples expanding in response to the sharp decrease in rates.

For the full year 2023, this left the cloud software group up nearly +42%, as its fundamental resilience amid a mixed global economy underscored the high priority nature of its products and downward pressure on interest rates in anticipation of central bank rate cuts in 2024 began to be priced in.

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## Contributors and Detractors

Contributors reported solid earnings results supported by the secular trend toward businesses investing in their cybersecurity infrastructure.

CrowdStrike Holdings Inc. (CRWD) is a leading cybersecurity software vendor. Its cloud-based endpoint security software is considered the industry's best-of-breed because of its reliability and capability. Following last quarter's strong earnings results, CRWD delivered another excellent "beat and raise" earnings report, despite a still-challenging macro environment. Drivers were strong cross-sell and up-sell activities for CRWD's best-in-class cybersecurity platform amid the industry's ongoing migration from point solutions to single platform solutions. CrowdStrike's net retention rate improved nicely, an indicator of sustained growth over the next few quarters.

Zscaler Inc. (ZS) is a network security company supplying cloud-based solutions for the secure web gateway market. It offers a multi-tenant distributed cloud platform and zero-trust framework to displace the traditional perimeter-based security approach. During the quarter, the company reported very strong Q3 earnings results headlined by its billings growth rate stabilizing at 34% on resilient customer demand. The company additionally updated the leadership of its sales team by appointing a new Chief Revenue Officer and Chief Marketing Officer, part of Zscaler's goal to reach \$5B in annual recurring revenue (ARR).

Detractors were impacted by cyclical factors related to the overall macroeconomy or other specific elements of their business.

BILL Holdings Inc. (BILL) provides cloud-based software used by small-to-medium-sized businesses (SMBs) worldwide to simplify, digitize, and automate back-office financial operations. The stock fell sharply after reporting disappointing quarterly results and revising its outlook downward on worsening macro conditions that particularly affected the lower end of its SMB customer base. Here, BILL saw specific pressure in its premium products like virtual credit cards. BILL also made the decision to mitigate its credit exposure by reducing the amount of credit it extends to its clients, which pushed down its transaction processing volumes. Ultimately, this report revealed the potential for several types of cyclical sensitivity (economic, product, and credit) to overwhelm the other merits of the stock. We took advantage of a significant post-earnings recovery, driven by a broad market recovery, to exit the stock approximately 40% above the post-earnings low.

Procore Technologies Inc. (PCOR) makes construction management software which helps construction professionals to streamline their projects, improve collaboration, and drive operational efficiency. PCOR has been quite isolated from the widespread macro headwinds in the software industry, but this quarter management stated that it anticipated macro conditions to worsen in upcoming quarters. The stock sold off by -15% as the market priced in the newly disclosed macro impact. The company has since moved to implement its downcycle playbook to protect profitability and its premium retention rates. As the company's macro exposure still seems reasonably contained and it continues to execute well on its controllables, we are not overly discouraged by this quarter's dynamics.

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#### FOURTH QUARTER 2023 CONTRIBUTION REPORT

Ranked by Basis Point Contribution

	Basis Point Contribution	Average Weight
<b>Top Contributors</b>		
CrowdStrike Holdings Inc.	+816	15.87%
Datadog Inc.	+382	9.89%
Zscaler Inc.	+333	8.01%
<b>Bottom Detractors</b>		
BILL Holdings Inc.	-425	5.53%
Procore Technologies Inc.	-26	10.29%

*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 Strategy. Holdings listed might not have been held for the full period. To obtain a copy of RMB Asset Management'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.*

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## Portfolio Activity

There were a few adjustments made in the fourth quarter, following a period of no portfolio activity in the third quarter.

As discussed, results from Bill Holdings Inc. (BILL) revealed the extent of its cyclical exposure to multiple factors including small and midsize business demand patterns and electronic payment processing volumes. We chose to consolidate the BILL position into what we believe are more promising holdings which were progressing more consistently toward our investment thesis.

CrowdStrike Holdings Inc.'s (CRWD) continued strong execution and consequent price appreciation pushed the position size, already the Strategy's largest, to more than 15% of the portfolio and to an even larger proportion of the portfolio's total idiosyncratic (i.e. company-specific) risk. While the portfolio is constructed to give winners significant room to grow, risk controls do call for a regular review of our largest bets. This led to a modest opportunistic reduction in the CRWD position while keeping it as the largest position in the Strategy.

Finally, the monday.com Ltd. (MNDY) position was increased from relatively modest levels. Our confidence continues to grow in this successful new addition to the Strategy, driven by strong execution on its push upmarket into the enterprise space.

## Outlook

Following a dramatic rally to conclude a dynamic year for this group, we continued our regular threefold assessment of its fundamentals, valuation, and sentiment.

Our fundamental assessment held steady in a neutral state, improving from earlier this year when the global economy was slowing and the software selling environment worsening. Cloud software companies are not immune to economic fluctuations but do continue to command a priority share of corporate IT budget dollars. Cloud services demand as reported by hyperscalers such as Microsoft, Google, and Amazon continued to stabilize and show signs of recovery, another important indicator of better fundamentals ahead.

After moving from cautious to neutral last quarter, the aggressive flight to risk to end the year moved our view on sentiment back to a more cautious state. In the near-term, investor appetite for risk is bound to continue fluctuating, based on economic, interest rate, and demand trends.

Finally, valuations benefited from the tailwind of interest rate declines and remain on the cautious side of neutral, still solidly above their pre-COVID 5-year averages.

Overall, this keeps our assessment of the group steady at approximately a neutral point. From here, we await corporate earnings season to provide further perspective on key demand factors, like which software categories will be prioritized in 2024 IT budgets, as well as which path cloud services demand will follow going forward.

After historically extreme price swings over the past two years, the cloud software group appears poised for something less dramatic in 2024. Fundamentals are sound but unlikely to inflect substantially higher while the global economy navigates a potential soft landing. Valuations have already benefitted from the anticipation of interest rate cuts coming in 2024, diminishing the extent to which the cuts themselves may benefit the group.

Stretching the view out a bit longer, we continue to see company fundamentals driven by innovative product development and strong sales execution among the key determinants of long-term Strategy returns. On this count, our confidence in what we believe to be the excellent group of companies which populate this portfolio and their potential to build further upon the strong returns of this year remains high.

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Thank you for your commitment to the Strategy. If you have any questions, please do not hesitate to contact us.

Sincerely,



Tom Fanter  
Partner, Portfolio Manager

## TOP FIVE HOLDINGS AS OF 12/31/23

<b>Company</b>	<b>% of Assets</b>
CrowdStrike Holdings Inc. (CRWD)	14.37%
Cloudflare Inc. (NET)	11.40%
Procore Technologies Inc. (PCOR)	10.37%
MongoDB Inc. (MDB)	10.32%
Datadog Inc. (DDOG)	9.77%

*Holdings are subject to change. Past performance is not indicative of future results, and there is risk of loss of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.*

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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 the strategies. The benchmarks are shown for comparison purposes and are fully invested and include the reinvestment of income. The Russell 2500® Software and Computer Services Index. measures the performance of the Software and Computer Services segment of the 2,500 smallest companies in the Russell 3000® Index in the U.S. equity universe. An investment cannot be made directly in an index.

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## RMB Asset Management

Innovators Composite // GIPS Report

**Organization** | RMB Capital Management, LLC (“RMB Capital”) is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 and established in 2005. The GIPS firm is defined as RMB Asset Management (“RMB AM”), a division of RMB Capital Management, LLC. Previously, the firm was defined as RMB Capital and was redefined on January 1, 2016 to only include the asset management business due to the difference in how its investment strategies and services are offered. RMB AM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RMB AM has been independently verified for the periods April 1, 2005 through December 31, 2020. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

**Description** | The Innovators Strategy reflects the performance of fully discretionary equity accounts, highly concentrated of 8-15 publicly-traded enterprise software companies which we believe are particularly well-positioned to capitalize on long duration growth opportunities and for comparison purposes is measured against the Russell 2500® Software and Computer Services Index. The inception date of the Innovators Composite is July 31, 2022 and the Composite was created on July 31, 2022. Valuations and returns are computed and stated in U.S. Dollars.

### ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK

*No performance due to insufficient data (less than 1 year since inception date).*

**Fees** | Effective January 1, 2011, RMB Capital's management fee schedule for this Composite is as follows: 1.00% on the first \$10.0 million, 0.85% on the next \$10.0 million, and 0.70% over \$20.0 million. Actual management fees charged by RMB may vary. Composite performance is presented on a gross-of-fees and net-of-fees basis and includes the reinvestment of all income. Gross-of-fees returns means it is net of transaction costs but gross of asset management fees and custodian fees. The payment of actual fees and expenses would reduce gross returns. The compound effect of such fees and expenses should be considered when reviewing gross returns. The net returns are reduced by all actual fees and transactions costs incurred. The composite includes accounts that pay asset-based pricing for trading expenses. The maximum fee is 15 basis points per year; however, many accounts pay lower amounts due to household break-point relief. In addition to a management fee, some accounts pay a wealth management fee based on the percentage of assets under management to RMB Capital. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Risk measures presented are calculated using gross-of-fees performance. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

**Minimum Value Threshold** | There is no account minimum for the Equity Income composite.

**Comparison with Market Indices** | RMB compares its Composite returns to a variety of market indices such as the Russell 2500® Software and Computer Services Index. The index represents unmanaged portfolios whose characteristics differ from the Composite portfolios; however, it tends to represent the investment environment existing during the time period shown. The Russell 2500® Software and Computer Services Index measures the performance of the Software and Computer Services segment of the 2,500 smallest companies in the Russell 3000® Index in the U.S. equity universe. An investment cannot be made directly in an index. The returns of the index do not include any transaction costs, management fees, or other 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 in the Composite. Benchmark returns presented are not covered by the report of independent verifiers.

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