

**FIRM BROCHURE**  
(Part 2A of Form ADV)

**March 30, 2020**



600 West Broadway, Suite 1000  
San Diego, California 92101-3383  
Phone: (619) 239-9005  
Fax: (619) 239-6034  
[www.ricehalljames.com](http://www.ricehalljames.com)

Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Rice Hall James & Associates, LLC. If you have any questions about the contents of this Brochure, please contact us at (619) 239-9005 and/or [www.ricehalljames.com](http://www.ricehalljames.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Rice Hall James & Associates, LLC is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Rice Hall James & Associates, LLC and its registered representatives is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2: MATERIAL CHANGES

Rice Hall James & Associates, LLC (“Rice Hall James”) has made updates to its ADV Part 2A in accordance with annual requirements. Changes were made as follows:

Item 4 - “Advisory Business” - has been updated to reflect the firm’s assets under management as of December 31, 2019.

Item 5 - “Fees and Compensation” - removed disclosures regarding charging a fixed fee.

Item 8 - “Methods of Analysis, Investment Strategies and Risk of Loss” - updated market capitalization for the Micro Cap Equity and Small Cap Value strategies.

Item 12 - “Brokerage Services” - updated list of research products received under soft dollar arrangements.

Item 13 - “Review of Accounts” - updated number of assigned accounts reconciled by Operations Administrators.

Other non-material updates were made within this Brochure, so we urge prospective and current clients to read the document in its entirety. Rice Hall James’ previously updated ADV Part 2A is dated March 29, 2019. Pursuant to SEC Rules, Rice Hall James will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as we experience material changes in the future, we will send a summary of our “Material Changes” under separate cover, along with an offer to provide the Brochure. For more information about our firm, please visit [www.ricehalljames.com](http://www.ricehalljames.com). Additional information about Rice Hall James and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 3: TABLE OF CONTENTS**

Item Number: Item	Page
Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Advisory Business.....	5
A. Description of Firm.....	5
B. Types of Advisory Services Offered.....	5
C. Assets Under Management.....	7
Item 5: Fees and Compensation .....	8
A. Investment Management Fees Charged to Direct Clients.....	8
B. Fees Charged to Wrap Sponsors .....	9
C. Fees Charged to UMA Sponsors.....	10
D. Fees Charged to Mutual Fund and CCF Clients .....	10
E. Fees Charged to RHJ CIT.....	10
F. Fees Charged to Third Party Advisers for Sub-Advisory Clients .....	10
G. Other Fees and Expenses .....	11
H. Important Considerations.....	11
Item 6: Performance-Based Fees and Side-by-Side Management .....	12
Item 7: Types of Clients .....	13
A. Description of Types of Clients .....	13
B. Conditions for Managing Accounts .....	13
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	14
A. Methods of Analysis .....	14
B. Investment Strategies .....	15
C. Material Investment Risks.....	16
Item 9: Disciplinary Information.....	18
Item 10: Other Financial Industry Activities and Affiliations.....	18
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	18
A. Description of Code of Ethics.....	18
B. Participation or Interest in Client Transactions.....	19
Item 12: Brokerage Practices.....	20
A. Brokerage Discretion .....	20
B. Selection Criteria.....	20
C. Soft Dollars .....	21
D. Initial and Secondary Public Offering (IPO & SPO) Allocation Policy.....	23
E. Trade Rotation Policy.....	24
F. Aggregation of Orders .....	24

G. Directed Brokerage .....	25
Item 13: Review of Accounts .....	26
Item 14: Client Referrals and Other Compensation .....	27
A. Economic Benefits Received .....	27
B. Compensation for Client Referral .....	27
Item 15: Custody .....	28
Item 16: Investment Discretion .....	29
A. Discretionary Authority; Limitations .....	29
B. Limited Power of Attorney .....	29
Item 17: Voting Client Securities .....	29
A. Proxy Voting Policies and Procedures .....	29
B. Class Action Filings .....	30
Item 18: Financial Information.....	30

## ITEM 4: ADVISORY BUSINESS

### *A. Description of Firm*

Rice Hall James & Associates, LLC (“Rice Hall James”) is an SEC registered investment management firm, with its principal place of business located in San Diego, California and branch offices located in Pasadena, California and Mahwah, New Jersey. Rice Hall James was founded in 1974. Rice Hall James provides investment management services on a discretionary basis to its clients. We conduct business in a number of states (see Part 1 of our Form ADV).

Rice Hall James, a limited liability company, has six managing members (“Managing Members”) serving with the following functions: Thomas McDowell, Chief Executive Officer & Chief Investment Officer for San Diego; Thao Buuhoan, President and Chief Operating Officer; Timothy Todaro, Portfolio Manager; Cara Thome, Portfolio Manager, Yossi Lipsker, Portfolio Manager/Analyst, and Lou Holtz, Chief Investment Officer for Pasadena-based Opportunities Team and Portfolio Manager/Analyst. The Managing Members are responsible for overseeing the firm’s investment activities and business operations. In the aggregate, they own a majority interest in Rice Hall James and comprise the firm’s management committee.

### *B. Types of Advisory Services Offered*

Rice Hall James provides its investment management services on a discretionary basis to clients directly (“Direct Clients”), via sub-advisory arrangements (“Sub-Advisory Clients”), and through unaffiliated third party sponsored wrap programs (“Wrap Clients”). Currently, Rice Hall James does not offer or provide its services to clients on a non-discretionary basis, except under Unified Managed Account programs (see below for description) and we do not sponsor wrap programs.

Additionally, Rice Hall James serves as the investment adviser for our affiliated registered mutual funds, the RHJ Funds, and serves as a sub-manager to non-affiliated U.S. and European based mutual funds (“Mutual Fund Clients”). Rice Hall James also serves as sub-manager to an Ireland based common contractual fund (“CCF Client”) and an adviser to the Rice Hall James Collective Investment Trust (“RHJ CIT”).

Currently we offer eight core investment strategies:

- 1) SMID Cap Equity Strategy
- 2) Small Cap Equity Strategy
- 3) Micro Cap Equity Strategy
- 4) Small Cap Opportunities Strategy
- 5) Micro Cap Opportunities Strategy
- 6) SMID Cap Opportunities Strategy
- 7) Small Cap Value Strategy
- 8) International Small Cap Strategy

Please refer to **Item 8** for further information regarding our analysis methods and investment strategies, including details on the specific risks associated with these strategies.

#### Services Provided to Direct Clients

Each Direct Client will enter into a written agreement with Rice Hall James for the management of assets.

At the beginning of the relationship, we generally meet with Direct Clients and gather information regarding the client's overall investment objectives. This will include the Direct Client's individual needs, such as risk tolerance, time horizon and any restrictions placed by the client. From there, we assist the client in determining the investment strategy or strategies that are best suited to meet the clients' needs and objectives. Once a Direct Client has selected an investment strategy or strategies, we provide continuous supervision and asset management. Direct Clients are responsible for informing us of any changes to their guidelines, individual needs and/or restrictions.

#### Services Provided to Unified Managed Accounts ("UMAs")

Rice Hall James has entered into written agreements with certain unaffiliated investment advisers, commonly referred to as UMA accounts (unified managed accounts), to provide ongoing information regarding our strategies. Under these arrangements we supply the investment adviser ("UMA Sponsor") with a model portfolio for one or more of the investment strategies we offer. Rice Hall James does not have any relationship or agreement with the UMA Sponsor's Clients and does not receive any specific client information from the UMA Sponsor. The UMA Sponsor retains full discretion on whether or not to invest their UMA Clients' assets using model portfolio investment recommendations we provide. Rice Hall James does not include any UMA assets in the calculation of our AUM (assets under management), however, we are paid a flat percentage fee on these assets. See **Item 5** below for further information on fees.

#### Services Provided to the Mutual Fund and CCF Clients

For our Mutual Fund and CCF Clients, we manage the pooled assets of each in accordance with the relevant fund's investment objectives and restrictions as outlined in the offering documents (*i.e.*, prospectus). These investment objectives and restrictions cannot be changed without a shareholder/investor vote or agreement, as applicable.

#### Services Provided to the RHJ CIT

Rice Hall James serves as an investment adviser to the RHJ SMID Cap Opportunities CIT (the "RHJ CIT Fund"), which is part of the Rice Hall James Collective Investment Trust (the "RHJ CIT"). SEI Trust Company serves as the Trustee of the RHJ CIT (the "Trustee"), and is an unaffiliated trust company organized under the laws of the Commonwealth of Pennsylvania and wholly owned subsidiary of SEI Investments Company. The RHJ CIT Fund investors are limited to tax qualified pension plans, profit sharing plans, and government plans. A collective investment trust such as the RHJ CIT Fund is not a mutual fund.

Rice Hall James also provides various services for the RHJ CIT, which include but are not limited to providing: (i) educational and training materials on the RHJ CIT to prospective

participants, (ii) customer service to RHJ CIT participants; and (iii) certain information to the Trustee of the RHJ CIT on a quarterly basis.

Services Provided through Unaffiliated Wrap Programs

Rice Hall James also offers its investment strategies through certain wrap programs (each, a “Wrap Program”), which are sponsored by multi-service financial institutions unaffiliated with us (each, a “Wrap Sponsor”). A list of such Wrap Programs may be found in Part 1 of our Form ADV.

Wrap Clients enter into a written agreement with the Wrap Sponsor, not Rice Hall James. Generally, a Wrap Client selects an investment adviser, such as Rice Hall James, from a list of Wrap Sponsor-approved advisers. The selected adviser will provide investment management services for the Wrap Client’s assets allocated to the Wrap Program. For a single all-inclusive fee that the Wrap Client pays the Wrap Sponsor (the “Wrap Fee”), a Wrap Client receives certain other services from the Wrap Sponsor, such as trading execution and custodial services. Rice Hall James does not receive any fees or compensation directly from Wrap Clients. Under an agreement with the Wrap Sponsor, Rice Hall James receives a portion of the Wrap Fee from the Wrap Sponsor for providing investment management services for the Wrap Client’s account.

Although the types of investment management services we provide to Wrap Clients are generally the same as the types of investment management services provided to our Direct Clients, certain differences exist. These include: 1) that the Wrap Sponsor collects each Wrap Client’s investment objectives and assists in determining the strategy best suited for the Wrap Client, and 2) communications regarding the investment management of a Wrap Clients’ assets is between the Wrap Sponsor and the Wrap Client, with Rice Hall James only communicating with the Wrap Sponsor (unless the Wrap Client requests otherwise).

Sub-Adviser Arrangements with Unaffiliated Third Party Advisers

Rice Hall James has entered into written agreements with certain unaffiliated third party investment advisers to serve as a sub-adviser and provide investment management services to the third party advisers’ clients. Under these sub-advisory arrangements, each third party investment adviser is responsible for working with its clients to select the appropriate Rice Hall James strategy for investment. Rice Hall James manages the clients’ designated assets based on the respective selected investment strategy, as provided by the third party investment adviser.

Please refer to **Item 5** for information regarding the fees received by Rice Hall James under the various arrangements outlined above.

***C. Assets Under Management***

As of December 31, 2019, the following represents the total amount of gross client assets under management ("AUM") by Rice Hall James on a discretionary basis:

Discretionary	\$ 3,359,357,841

## ITEM 5: FEES AND COMPENSATION

### A. Investment Management Fees Charged to Direct Clients

As noted above, Direct Clients enter into a written agreement with Rice Hall James. The client agreement sets forth the relationship's terms and conditions, including the investment management fees we charge for our services. These fees are subject to negotiation under certain circumstances and at the sole discretion of Rice Hall James (please see information further below in **Item 5A**).

The following fee schedules reflect our current standard fee schedule by strategy for Direct Clients:

#### Small Cap Equity Strategy and SMID Cap Equity Strategy

<u>Annual Rate</u>	<u>Market Value</u>
0.90%	on first \$25 million
0.70%	over \$25 million
<i>Minimum annual fee: \$45,000</i>	

#### Micro Cap Equity Strategy

Annual Rate 1.0% flat rate  
*Minimum annual fee: \$50,000*

#### Micro Cap Opportunities Strategy

Annual Rate 1.25% flat rate  
*Minimum annual fee: \$62,500*

#### Small Cap Opportunities Strategy

Annual Rate 1.0% flat rate  
*Minimum annual fee: \$50,000*

#### SMID Cap Opportunities Strategy

<u>Annual Rate</u>	<u>Market Value</u>
1.0%	on first \$25 million
0.85%	over \$25 million
<i>Minimum annual fee: \$50,000</i>	

#### International Small Cap Strategy\*

Annual Rate 1.0% flat rate

#### Small Cap Value Strategy\*

<u>Annual Rate</u>	<u>Market Value</u>
1.0%	on first \$25 million
0.85%	over \$25 million

\*The Small Cap Value and International Small Cap Strategies do not have a minimum fee.

**The following applies to the above fee schedules:**

- The minimum fee has been in the past, and may be in the future, reduced or waived at the discretion of Rice Hall James if: 1) the client has a certain amount of total assets managed by us in other related accounts; 2) the client has assured us that near-term contributions will bring the account fees to the minimum; or 3) under other conditions relating to the type of client (e.g., family, friends of the firm, pooled investment vehicle,



high net worth individual, institution, etc.). We have in the past and reserve the future right to waive or charge a lower minimum fee at our discretion.

- Market values of related accounts on the same tiered fee schedule are combined for fee calculation. For purposes of fee calculation, “related accounts” include accounts of family members regardless of whether or not they are living at the same household, and any associated trust and/or corporate accounts.
- Unless otherwise arranged with a client, investment management fees are billed to Direct Clients quarterly in arrears, based on the market value of account assets (including cash and cash equivalents, and accrued interest and dividends) as of each calendar quarter’s last day. Fee calculations vary based on client request.
- Fees are pro-rated for mid-quarter account openings and closings.
- There is no set-up fee, pre-payment or termination fee.
- Accounts are not charged a management fee on any assets invested in an affiliated mutual fund (i.e., RHJ Funds), but the accounts will pay the advisory fee and other expenses charged by that mutual fund. Please refer to “Other Fees and Expenses” below.
- Fees received from the Wrap Sponsors for accounts obtained through Wrap Programs vary depending on the Wrap Program and the extent of services provided by Rice Hall James. See the discussion below.
- When determining the market value of the securities in an account for purposes of calculating advisory fees, Rice Hall James’ policy is as follows: For all publicly traded securities held in client accounts, Rice Hall James receives daily prices electronically from a third party provider. Client accounts are reconciled against the client’s custodian and any discrepancies are corrected promptly.

### ***B. Fees Charged to Wrap Sponsors***

Wrap Clients do not pay Rice Hall James any fees or compensation directly, they pay the Wrap Fees to the Wrap Sponsor. Rice Hall James is not generally informed of the specific fee arrangement negotiated between each Wrap Client and the Wrap Sponsor. The annual investment management fees we receive from each Wrap Sponsor are generally equal to either: (a) a percentage of the total assets in the Wrap Sponsor’s Wrap Program accounts for which Rice Hall James provides investment management services, or (b) a percentage of the Wrap Fees actually collected by the Wrap Sponsor from Wrap Clients for whose accounts we provide investment management services. Each Wrap Sponsor pays us on a quarterly basis, either in arrears or in advance, as outlined in each written agreement between Rice Hall James and the Wrap Sponsor. The standard fees we receive from each Wrap Sponsor vary depending on the investment style selected and other factors. Wrap Clients can receive information about Wrap Fees from the Wrap Sponsor.

Each Wrap Sponsor is required under federal securities laws to provide Wrap Clients with an Appendix 1 to Form ADV Part 2A (“Wrap Program Brochure”), which includes disclosures on, among other things, the Wrap Fees charged to Wrap Clients. Wrap Clients should review the Wrap Program Brochure in its entirety, along with this Brochure in order to fully understand the services, fees and risks surrounding these arrangements. Wrap Clients should understand that these types of programs have layers of fees that may or may not be apparent without reading the Wrap Program Brochure and this Brochure, along with the offering document/prospectus for

underlining investments. For example, although Rice Hall James does not “step out” trades and uses the Wrap Sponsor for execution services, it is permitted to do so. If Rice Hall James were to “step out” any trades, Wrap Clients would incur commission costs in addition to the Wrap Fee. The Wrap Program Brochure should detail such expenses.

#### ***C. Fees Charged to UMA Sponsors***

Rice Hall James receives an annual fee based on the amount of UMA assets invested in our model portfolios. The UMA Sponsor calculates the fee and pays us on a quarterly basis, either in arrears or in advance, as outlined in each written agreement between Rice Hall James and the UMA Sponsor.

#### ***D. Fees Charged to Mutual Fund and CCF Clients***

For the affiliated Mutual Fund Clients, we receive an investment management fee based on a percentage of the assets of each Mutual Fund Client’s average daily net assets. The fee for each of the affiliated funds is calculated by the Funds’ administrator and paid monthly in arrears. The exact investment management fees are detailed in each mutual fund’s prospectus and statement of additional information.

For the non-affiliated Mutual Fund Clients, Rice Hall James is paid an annual fee from the management fee received by the Fund’s investment manager, which is based on the average daily net sub-advised assets of the Fund. The fee is calculated by the investment adviser and paid monthly in arrears. For the CCF Client, Rice Hall James receives a sub-management fee, which is calculated and paid by the investment manager quarterly in arrears.

Shareholders/investors in these pooled investment vehicles are provided with a prospectus or other applicable offering document, which outlines, among other things, the total fees paid by the funds. Shareholders and investors, as applicable, should review the prospectus/offering documents of the applicable fund in their entirety in order to fully understand the fees and risks surrounding these investment vehicles.

#### ***E. Fees Charged to RHJ CIT***

Each investor in the RHJ CIT Fund pays a fee to the Trustee (“Trustee Fee”). The Trustee Fee pays (i) the normal operating fees and expenses of the CIT Fund; and (ii) compensation to the Trustee and Rice Hall James for their fiduciary and management services. The Trustee fee for the RHJ CIT Fund is based on share class investment and is paid monthly in arrears. Details on all fees associated with the RHJ CIT Fund are detailed in the Disclosure Memorandum for each relevant share class, which is provided to investors.

#### ***F. Fees Charged to Third Party Advisers for Sub-Advisory Clients***

Sub-Advisory Clients do not pay Rice Hall James any fees or compensation directly. Rice Hall James receives an annual investment management fee from each third party investment adviser based on the total assets in each such third party adviser’s clients’ accounts for which Rice Hall

James provides investment management services. Rice Hall James receives the sub-advisory fees on a quarterly basis from the third party investment adviser, either in advance or arrears depending on the arrangement. Sub-Advisory Clients should receive information about the fees they pay from their third party investment adviser.

Each third party investment adviser is required under federal securities laws to provide their clients, including Sub-Advisory Clients with a Form ADV Part 2A (“Adviser Brochure”) that includes disclosures on, among other things, the fees charged to their clients. Sub-Advisory Clients should review the Adviser Brochure in its entirety, along with this Brochure in order to fully understand the services, fees, and risks surrounding these arrangements. Sub-Advisory Clients should understand that these types of arrangements have layers of fees that may or may not be apparent without reading the Adviser Brochure and this Brochure, along with the offering document/prospectus for underlining investments.

### ***G. Other Fees and Expenses***

Clients should understand that the fees discussed above are Rice Hall James’ investment management fees and do not represent charges imposed by third parties, which will be additional. For example, custodial fees, mutual fund fees and expenses, and fees charged by Wrap Sponsors and third party advisers are not included in and will be additional to fees that Rice Hall James receives. Client accounts also are subject to the following additional fees, as applicable: transaction fees; brokerage fees and commissions; retirement plan administration fees; deferred sales charges on mutual funds initially deposited in the account; 12b-1 fees; odd-lot differentials; transfer taxes; wire transfer and electronic fund fees; and other fees and taxes on brokerage accounts and securities transactions. For clients invested in mutual funds and exchange trade funds (“ETFs”), there are additional fees that are charged by each mutual fund and ETF, which include: internal management fees, distribution fees (e.g., 12b-1 fees) and other administrative expenses. These fees are fully described in each funds’ prospectus.

Please refer to **Item 12** of this Brochure for additional important information regarding Rice Hall James’ brokerage and transactional practices.

Clients should review all applicable documents to fully understand the total amount of all fees being charged. Clients should understand that lower fees for comparable services may be available from other investment advisory or financial planning firms.

### ***H. Important Considerations***

Upon termination, clients who pay fees in advance will receive a refund of the portion of the pre-paid fees for which services have not been provided. This is outlined in the client’s investment management agreement with Rice Hall James.

Rice Hall James does not receive commissions or other compensation for the sale of securities or other investment products. However, certain employees of Rice Hall James are also registered representatives of a registered non-affiliated broker-dealer. See **Item 10** for further information.

## ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

**Performance based fees:** Rice Hall James currently has one client that is charged an annual performance fee on investment profits in their account. The client meets the qualification requirements provided in Rule 205-4 of the Investment Advisers Act of 1940 and performance fee is in lieu of an annual asset based management fee. No other clients are charged performance based fees. The performance fee is an annual fee that is charged quarterly in arrears.

Clients should understand that certain conflicts of interest exist due to performance fee arrangements, which include:

- (i) Performance fee arrangements create an incentive for Rice Hall James to make investments that are more risky or more speculative than might be the case in the absence of a fee based on performance;
- (ii) Rice Hall James receives increased compensation with regard to unrealized appreciation as well as realized gains on assets in the client's account; and
- (iii) The performance fees charged by us may be higher or lower than fees charged by other advisers for comparable services.

To address these conflicts, Rice Hall James has adopted certain investment and trade allocation procedures designed to mitigate the effects of these conflicts. Please refer to **Item 12** for more details. In addition, as part of our fiduciary duty to clients, Rice Hall James and our employees endeavor at all times to put the interests of our clients first, and investment recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the clients.

Regarding side-by-side management, Rice Hall James provides advisory services for a variety of clients, including but not limited to institutional clients, registered mutual funds, and high net worth individuals. As we have outlined in this Brochure, we receive different types of fees, such as asset based and performance based fees. Providing management services to clients that are charged different types of fees creates conflicts of interest between us and our clients, in addition to the ones listed above. For example, charging performance based fees could incentivize us to trade more frequently and/or allocate more favorable investments to those accounts. To address and help mitigate these conflicts of interest, we have adopted detailed policies and procedures regarding portfolio management and trading and also have implemented the following:

- (i) Our portfolio management process is designed to ensure the fair allocation of investment opportunities among clients of every type, the consistency of portfolios with clients' investment objectives and selected strategies, correct and complete disclosures by us, and compliance with applicable regulatory restrictions.
- (ii) Our Chief Investment Officer is responsible for ensuring the equitable treatment of client portfolios.
- (iii) Every effort is made to aggregate orders for all client types, with each participating account receiving an average share price for executed trades.
- (iv) Our soft dollars policy is designed to be in accordance with Section 28(e) of the Securities Exchange Act of 1934 and we have a brokerage committee that reviews our trade execution and soft dollar arrangements.

- (v) Our Chief Compliance Officer conducts a periodic review of client accounts, the portfolio management process, and the allocation of investment opportunities to ensure that all are conducted in accordance with our written policies and procedures and federal securities regulations.

## ITEM 7: TYPES OF CLIENTS

### *A. Description of Types of Clients*

Rice Hall James provides investment management services to Direct Clients, which include pension and profit sharing plans, charitable organizations, corporations and other businesses, state and municipal government entities, and high net worth individuals. We also provide investment management services to Mutual Fund Clients, which consist of both affiliated and unaffiliated registered mutual funds. Additionally, we provide investment management services to Sub-Advisory Clients through arrangements with third party advisers and we serve as sub-manager to the CCF Client, which is an Ireland based common contractual fund. Rice Hall James also provides services to UMA Sponsors and to the RHJ CIT (a collective investment trust). See **Item 4** above for more information on types of clients.

### *B. Conditions for Managing Accounts*

Rice Hall James imposes a minimum dollar amount for the assets required to open a non-wrap program account. That minimum is, unless otherwise agreed to by Rice Hall James, \$5 million dollars for the SMID cap, small cap and micro-cap equity products, as well as small cap, SMID cap and microcap opportunities strategies and \$1 million for the Small Cap Value and International Small Cap. There also is a stated minimum annual fee requirement for separate non-wrap accounts under each investment strategy, which is described in **Item 5A** above.

Accounts obtained through wrap programs are subject to the minimums of the particular program. Mutual fund minimum investments are outlined in each fund's prospectus.

There are times when certain restrictions are placed by a client which prevent us from accepting or continuing to service the client's account. Rice Hall James reserves the right to not accept and/or terminate a client's account if we feel as though the client imposed restrictions would limit or prevent it from meeting and/or maintaining its objectives. Rice Hall James also reserves the right to negotiate account minimums, which we have done in the past and may do in the future.

For ERISA clients, Rice Hall James will provide certain required disclosures to the "responsible plan fiduciary" (as such term is defined in ERISA) in accordance with Section 408(b)(2), regarding the services we provide and the direct and indirect compensation we receive from such clients. Generally, these disclosures are contained in this Form ADV Part 2A, the client agreement and in separate ERISA disclosure documents, and are designed to enable the ERISA plan's fiduciary to: 1) determine the reasonableness of all compensation received by Rice Hall James; 2) identify any potential conflicts of interests; and 3) satisfy reporting and disclosure requirements to plan participants.

## ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### A. *Methods of Analysis*

#### 1. *Small Cap, SMID Cap, and Micro Cap Equity Strategies*

For these strategies, Rice Hall James uses a company-specific approach that focuses on identifying stocks of growth companies that are selling at a discount to those companies' projected earnings growth rates. Rice Hall James will primarily invest in companies with price/earnings ratios that are lower than those companies' three- to five- year projected earnings growth rates, which is what Rice Hall James considers "Growth at Reasonable Price" ("GARP"). Rice Hall James generally focuses on securities of companies with the following attributes:

- ▶ Strong management
- ▶ Growing niche market
- ▶ Potential for improvement in profit margins
- ▶ Anticipated above-average revenue and earnings growth rates
- ▶ Positive fundamental change or "Catalyst" creating inflection point in stock price

#### 2. *Small Cap, SMID Cap and Micro Cap Opportunities Strategies*

Our goal for these strategies is to take advantage of the long-term appreciation potential of smaller companies by performing disciplined fundamental research, combined with the patience of longer-term holding periods. We seek to achieve above average risk-adjusted performance by selecting companies with higher estimated earnings growth rates, higher returns on invested capital and better sustainability characteristics than that of each strategy's benchmark. Our overall analysis includes focused research covering:

- ▶ Earnings growth
- ▶ Return on investment capital
- ▶ Sustainable competitive advantage
- ▶ Company valuations
- ▶ Internal guideposts listing specific factors unique to selected companies

#### 3. *Small Cap Value and International Small Cap Strategies*

Our goal for these strategies is to generate excess investment returns for our clients over a market cycle by identifying and exploiting valuation inefficiencies between the market prices of smaller companies and their intrinsic valuations. Utilizing a combination of quantitative screening and fundamental analysis, we seek to invest in a portfolio of securities with competitively advantaged business models, whose valuations imply a reasonable bear case profitability scenario. Overall analysis is focused on the following factors:

- ▶ Sustainable cash flow generation
- ▶ Long-term competitive advantage
- ▶ Return on investment maximizing capital allocation strategy
- ▶ Aligned management incentives



- ▶ Valuation implying an adequate margin of safety

#### *4. Types of Securities*

For investments within our offered investment strategies, Rice Hall James mainly utilizes equity securities, but we at times also invest in corporate debt securities (bonds), municipal bonds, U.S. government securities, foreign securities, mutual funds and exchange trade funds (ETFs), among others, if we determine such investments fit within the objectives of each strategy and are in the best interest of our clients.

We do not invest Clients' assets in derivative securities, such as options or futures contracts; however, there have been times when a new client has a warrant in their account they want to maintain or a client receives warrants due to tender offers. Under these circumstances, Rice Hall James does manage such assets. In addition, Rice Hall James has current clients whose assets are managed in a balanced strategy.

### ***B. Investment Strategies***

#### *1. Small Cap, SMID Cap, and Micro Cap Equity Strategies*

These strategies seek to uncover and capitalize on smaller, growing, undervalued companies we believe offer higher return potential while adhering to disciplined risk controls. Ideally, the strategies are comprised of reasonably priced, less visible companies with unique business concepts or niche products we feel are ripe for growth. The bottom-up, fundamental stock selection process singles out companies with the following market capitalizations<sup>1</sup> at the time of purchase:

- ▶ The SMID Cap Equity strategy ranges between \$1.5 billion and \$12 billion
- ▶ The Small Cap Equity strategy ranges between \$250 million and \$5 billion
- ▶ The Micro Cap Equity strategy ranges between \$50 million and \$1.0 billion

#### *2. Small Cap, SMID Cap, and Micro Cap Opportunities Strategies*

Our opportunities strategy investment philosophy centers around three basic principles: 1) high estimated earnings per share growth; 2) high or improving return-on-invested capital; and 3) strong sustainability characteristics. The Managers use fundamental analysis in researching and selecting companies for each strategy to satisfy these three tenets.

The primary objective of the Opportunities strategies is to take advantage of the long-term appreciation potential of smaller companies through disciplined fundamental research combined with the patience of longer-term holding periods. The bottom-up, fundamental stock selection process singles out companies with the following market capitalizations<sup>2</sup>:

- ▶ SMID Cap Opportunities strategy ranges between \$250 million and \$14 billion

---

<sup>1</sup> Selection universe is tied to the capitalization range of the Russell 2500<sup>®</sup>, Russell 2000<sup>®</sup>, and Russell Microcap<sup>®</sup> indices, respectively, each year at time of reconstitution.

<sup>2</sup> Selection universe is re-evaluated each year at the time of reconstitution of the respective Russell 2500<sup>®</sup> Growth index, Russell 2000<sup>®</sup> Growth, and Russell Microcap<sup>®</sup> Growth.

- ▶ Small Cap Opportunities strategy ranges between \$100 million and \$5.5 billion
- ▶ Micro Cap Opportunities strategy is \$1.4 billion and below

### 3. *Small Cap Value and International Small Cap Strategies*

The Small Cap Value and International Small Cap strategies' investment philosophy is centered on evaluating a company's profitability with a long time horizon and seeks to invest in a portfolio of securities with competitively advantaged businesses models, whose valuations imply a reasonable bear case profitability scenario. The strategies usually focus on companies with the following market capitalizations<sup>3, 4</sup>:

- ▶ Small Cap Value strategy ranges between \$250 million and \$5 billion
- ▶ International Small Cap strategy ranges between \$30 million and \$8.5 billion

### **C. Material Investment Risks**

**All investing involves a risk of loss. Clients and Fund investors should be prepared to bear losses in their accounts or on their Fund investments.**

Rice Hall James' investment recommendations are subject to various market, currency, economic, political and business risks. Our investment decisions will not always be profitable. Clients should be aware that there can be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that a client's investment objectives will be obtained. We do not guarantee or promise any level of performance.

In addition, the market value of stocks will fluctuate with market conditions, and small cap and micro-cap stock prices will generally move up and down more than large cap stock prices. Small cap and micro-cap stocks are subject to a higher degree of risk than more established (large cap) companies' securities. The illiquidity of the small cap, SMID cap and microcap market can adversely affect the value of client investments. Past performance of investments is no guarantee of future results.

Some additional general investment risks a client should be aware of include, but are not limited to, the following:

- **Market Risk:** The price of a stock, bond, mutual fund or other security can drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances.
- **Equity Risk:** Since the strategies invest in equity securities, there is an inherent risk that stock prices may fall over short or extended periods of time. Historically, the equity markets have moved in cycles, and the value of each strategy's equity securities can fluctuate drastically from day-to-day. Individual companies can report poor results or be negatively affected by industry and/or economic trends and developments. The prices of

<sup>3</sup> Selection universe for the Small Cap Value is tied to the capitalization range of the Russell 2000 Index, each year at time of reconstitution/.

<sup>4</sup> Selection universe for the International Small Cap is tied to the capitalization range of the MSCI EAFE Small Cap Index and can change each May and November with MSCI's semi-annual reconstitution.



securities issued by such companies can suffer a decline in response. These factors contribute to price volatility, which is the principal risk of investing in the strategies we offer.

- Foreign Risk: Investments in overseas markets (international securities) pose special risks, including currency fluctuation and political risks, and such investments may be more volatile than that of a U.S. only investment. The risks are generally intensified for investments in emerging markets.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Political and Legislative Risk: Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning, with significant impact, especially for companies operating outside of the United States or those companies who conduct a substantial amount of business outside the United States.
- Reinvestment Risk: Future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate), which primarily relates to fixed income securities.
- Business Risk: A particular industry or company within an industry can have an inherent risk. For example, oil-drilling companies depend on finding oil and then refining it, which is a lengthy process that must be completed to generate a profit. The oil-drilling companies will likely carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations can result in bankruptcy and/or a declining market value.

Before entering into an agreement with Rice Hall James, a client should carefully consider: 1) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, usually a minimum of three to five years; 2) that volatility from investing in the stock market can occur; and 3) that over time the client's assets fluctuate and at any time be worth more or less than the amount invested.

Rice Hall James does not represent, guarantee or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

There are additional risks associated with an investment in the RHJ Funds, the non-affiliated Mutual Fund Client, the CCF Client, and the RHJ CIT, which are outlined in their respective

prospectuses, offering documents or similar disclosure documents, and should be read carefully by investors.

### ITEM 9: DISCIPLINARY INFORMATION

Rice Hall James and its employees have not been involved in any legal or disciplinary events that would be material to a client's evaluation of the company or its personnel.

### ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Certain employees of Rice Hall James are also registered representatives of a registered non-affiliated broker-dealer. These employees, from time to time, recommend that certain potential Rice Hall James clients consider the purchase of shares of the affiliated RHJ Funds that we advise. These recommendations are rare and mainly for potential clients that do not meet the minimum asset requirements for a separately managed account. All such recommendations are made by the individuals, in the individual's capacity, as registered representatives of the non-affiliated broker-dealer and the individual does not receive any commissions or other fees for such recommendations or from any subsequent investment(s) made by the potential client in our affiliated mutual funds.

### ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### *A. Description of Code of Ethics*

Rice Hall James has adopted a written code of ethics applicable to all employees and certain of their family members. Our Code provides our employees with guidance in their ethical obligations regarding their personal securities transactions and fiduciary duties to clients. Specifically, the Code requires certain employees to report personal trades and holdings and prohibits or requires pre-clearance for certain trades in certain circumstances. The Code also contains procedures for reporting violations and enforcement. We distribute the Code to our employees annually, who review and affirm receipt. Our Code also sets forth specific policies and procedures for our employees to follow regarding material, non-public information ("insider information") and other confidential information of clients and the firm. The Code requires any employee receiving inside information to refrain from trading while in possession of that information and to discuss the information only with the firm's Chief Compliance Officer to determine an appropriate course of action. A copy of the Rice Hall James Code of Ethics is available to clients (or prospective clients) upon written request to:

**RHJ Code of Ethics Request**  
600 West Broadway, Suite 1000  
San Diego, CA 92101

**Or via Electronic Mail Request to the following email address:**

[info@ricehall.com](mailto:info@ricehall.com)

### ***B. Participation or Interest in Client Transactions***

Because the Code permits employees of Rice Hall James to invest in the same securities as our clients, there is a possibility that employees could benefit from market activity by a client in a security held by any employee. Employee trading is continually monitored under the Code to reasonably prevent conflicts of interest between Rice Hall James and our clients.

Rice Hall James does not affect any principal or agency cross securities transactions for client accounts; therefore, we do not sell securities we own to our clients and we do not buy securities from our clients. We also do not act as an investment adviser in a transaction in which we or our affiliate acts as a broker for both our client and for the person on the other side of the transaction. Additionally, Rice Hall James does not perform internal cross trading between client accounts.

Employees have invested and intend to continue to invest in RHJ Funds. Because the mutual funds' portfolios are managed by us and are treated as clients, employees may, on occasion, trade before some or all clients, and to that extent, employees who own shares of these mutual funds may be deemed indirectly to trade before clients, but only on a pro rata basis with all other shareholders of these mutual funds.

Rice Hall James and some of our employees invest personally in some of the same securities we purchase for clients, and own the same securities we later determine to purchase for clients. In addition, certain employees have engaged Rice Hall James to manage one or more personal accounts on a discretionary basis. Our Code contains procedures designed to address the conflicts that arise with regard to personal trading by Rice Hall James employees. For example, other than certain exceptions outlined below, when Rice Hall James is purchasing or considering for purchase any security on behalf of a client, employees may not buy or sell that security before Rice Hall James purchases it for the client or until we decide not to purchase that security. Similarly, when Rice Hall James is selling or considering the sale of any security on behalf of a client, no employee may buy or sell that security before we complete the sale for the client or until we decide not to sell that security. Exceptions are:

- The purchase and sale of the following types of securities: (i) shares of an ETF; (ii) a purchase or sale of any closed-end mutual fund; (iii) a purchase or sale of 50 bonds or less per day of any corporate bond or municipal bond (excluding new offerings); (iv) direct obligations of the Government of the United States; (v) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (vi) shares issued by mutual funds or money market funds; and (vii) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds;
- When an employee transaction in a security is aggregated with client transactions in the same security on the same day and traded as a "block", with each participant receiving the same average price. Please note, this is only allowed when Rice Hall James has determined there is no material conflict with clients and it is performed in accordance

with the Firm's trade aggregation and allocation policies and procedures (Please refer to **Item 12** for detailed information on trading policies and procedures)

Rice Hall James has a proprietary account that is invested in the Small Cap Value strategy. This account is a non-fee paying account, which is included in the Small Cap Value performance composite.

This creates a potential conflict because Rice Hall James could benefit by taking advantage of the knowledge it has of the strategy's trading activities and/or be given preferential treatment when the firm is allocating investments. To mitigate this potential conflict, the proprietary account is treated the same as a client account for trading purposes. Specifically, buy and sell decisions are traded as a block and this account is included in block transactions implemented for the strategy and receives the same price as other accounts. Partial fills are allocated pro-rata in line with our allocation policy and procedures, so all accounts are treated the same. However, if the shares received in a transaction were to be nominal, client accounts would receive shares ahead of the proprietary account. Rice Hall James does not purchase any IPOs in this strategy. Rice Hall James has a Brokerage Committee that meet periodically and, among other things, reviews the firm's trading activity to help ensure best execution. Also, Rice Hall James maintains written policies and procedures surrounding its trading practices, including policies and procedures pertaining to aggregation and allocation of trades and investment opportunities.

## ITEM 12: BROKERAGE PRACTICES

### *A. Brokerage Discretion*

With the exception of UMA accounts and two Mutual Fund Clients, Rice Hall James generally has the authority to determine, without a client's consent, the securities to be bought or sold, the amount of those securities, the broker-dealer to be used and the commission rates paid. Please refer to **Item 16** for detailed information regarding our investment discretion and authority.

We make investment decisions on behalf of our clients in accordance with each client's investment objectives, restrictions and selected investment strategy. This sometimes results in Rice Hall James making an investment decision for one client that differs from the investment decision made for another client. For example, a client can limit our authority in the following ways:

- 1) a client restricts or prohibits transactions in securities of a specific industry; and/or
- 2) a client directs that transactions be effected through specific brokers and dealers (Client Directed Brokerage).

For more information on directed brokerage arrangements, please refer to the section below titled "Directed Brokerage".

### *B. Selection Criteria*

Direct Clients, Sub-Advisory Clients, Mutual Fund Clients, CCF Client, and RHJ CIT

Rice Hall James has discretion to select the broker-dealers for trade execution for Direct Clients, Sub-Advisory Clients, Mutual Fund Clients (with one exception), the CCF Client, and the RHJ CIT.

Rice Hall James maintains a list of broker-dealers that meet our standards with respect to brokerage, execution and research capabilities. We seek to achieve “best execution” in selecting a broker-dealer for transactions placed by us. To achieve “best execution,” we consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security and, as discussed more fully below, the nature, quantity and quality of research and brokerage services and products provided by a broker-dealer. In placing transactions, we can cause client accounts to pay commissions to broker-dealers on an agency basis or to buy or sell securities directly from or to broker-dealers that are acting as principals (such as market-makers for over-the-counter securities or certain bonds). Prices for the latter transactions include markups or markdowns. Rice Hall James has complete discretion in negotiating all these compensation arrangements. When placing orders for execution in client accounts, we allocate transactions to broker-dealers for execution in various markets at prices and transaction costs that, based upon our good faith judgment, we believe will be qualitatively in the best interest of clients.

Our Brokerage Committee reviews the amount of commissions paid to these selected broker-dealers, and the list is updated as appropriate, including targets for commissions to be paid to each, subject to the fundamental policy of obtaining best execution on each trade. The amount of commissions allocated to each broker-dealer is strictly a target and not an obligation. In addition to the broker-dealers on the list, we also place non-directed brokerage clients’ trades with various electronic trading networks (ECNs).

The Brokerage Committee also performs periodic reviews of executions received to help ensure the clients are receiving overall best execution.

#### Wrap Clients

We place transactions for Wrap Clients through the Wrap Sponsor. The main reason for this mandate is because the brokerage costs (e.g., commissions etc.) for each transaction are included in the full Wrap Fee that the Wrap Client pays to the Wrap Sponsor. If Rice Hall James were to trade with a broker other than the Wrap Sponsor, the Wrap Client would incur an additional fee. Wrap Clients should be aware that this type of “directed brokerage” arrangement could result in a Wrap Client receiving terms for certain trades that are less favorable in some respects than our non-wrap clients whose trades are not executed through the Wrap Sponsor.

#### ***C. Soft Dollars***

Rice Hall James selects broker-dealers that provide various services or products, beyond transaction execution, to us and/or our affiliates, and our clients. Selecting a broker-dealer in recognition of products or services provided, other than simple transactions execution is known as paying for those products and services with “soft dollars.”

There is a conflict of interest that exists because many of those services could be considered to provide some benefit to Rice Hall James in addition to our clients, and because the monies used

to acquire the services will be from client assets (e.g., commissions) and not paid directly by us. In particular, Rice Hall James could receive valuable benefits by selecting a particular broker-dealer to execute client transactions and the commissions charged by that broker or dealer, which might not be the lowest commission we might otherwise be able to negotiate with that broker or other brokers. In addition, it could appear that we have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage commissions with which to acquire products and services. In order to mitigate the conflict that soft dollar arrangements present, Rice Hall James intends to make decisions involving the use of soft dollars in a manner that falls within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as outlined below.

### Research and Brokerage

Rice Hall James uses clients' soft dollars to acquire a variety of "research" and "brokerage" services and products for which those clients would not otherwise be required to pay. A federal statute, Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"), recognizes the potential conflict of interest involved in this activity, but provides a safe harbor for investment advisers such as Rice Hall James, from claims stating that the activity involves a breach of fiduciary duty to advisory clients. This safe harbor generally applies even if the brokerage commissions paid by clients are higher than the lowest available, but only so long as certain conditions are met.

First, the "research" under Section 28(e) must constitute advice, analyses or reports that express reasoning or knowledge as to the value of investing in or trading securities or as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent that we use them for lawful and appropriate assistance in making investment decisions for our clients. Research products and services provided to Rice Hall James can include the following: research reports on information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications (other than mass media publications); portfolio evaluation services; financial database software and services; and computerized news, pricing and other products or services that may enhance our investment decision making process.

Second, the "brokerage" services and products under Section 28(e) are those used to effect portfolio transactions for clients or for functions incidental to effecting such transactions (such as clearance, settlement or short-term custody related to effecting, clearing or settling transactions) or otherwise required in connection with transactions. "Brokerage" services and products (beyond typical execution services) provided to Rice Hall James could include: computer systems and facilities used for such things as communicating orders and settlement related information electronically to executing brokers and prime brokers; post-trade matching of trade information; communicating allocation instructions; and other clearance and settlement functions.

Lastly, in order to rely on the safe harbor provided under Section 28(e), investment advisers must, among other things, determine that the commissions paid are reasonable in light of the value of the "brokerage" and "research" services and products acquired. In making that determination, an adviser may consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in the investment adviser's performance of its overall investment



responsibilities to all of its clients. In other words, under Section 28(e) Rice Hall James can use soft dollars to obtain research and brokerage services and products that benefit clients other than the client whose transactions generated the soft dollars. For example, Rice Hall James may receive research that covers clients in the Small Cap Equity Strategy that was paid for with commissions generated from transactions executed for Micro Cap Equity Strategy. Rice Hall James does not attempt to match a particular client's trade executions with broker-dealers who have provided research services which have directly benefited that client's portfolio. Rather, we use the research services we receive for the ultimate benefit of all of our clients.

In accordance with Section 28(e), there can be times where Rice Hall James receives products or services from a broker-dealer that are considered "mixed use" products; a certain portion is not considered research or brokerage. When this happens, we will make a good faith determination of the amount that is not research or brokerage and pay for that portion with our own monies and not with client commission dollars. We only use client commissions or commission equivalents on transactions in securities as soft dollar payments; markups and markdowns on principal transactions will not be used for purchasing research or brokerage services other than execution.

To address the conflicts inherent in soft dollar arrangements, Rice Hall James monitors and reviews transaction results to evaluate the quality of execution provided by the various brokers and dealers we use, in order to determine whether the compensation rates are competitive and otherwise to evaluate the reasonableness of the compensation paid to those brokers and dealers in light of all the factors described above and to be certain that our clients are receiving the best overall deal considering the prevailing facts and circumstances.

Rice Hall James receives the following research products under a soft dollar arrangement with Cowen Execution Services (as of March 2020):

- FactSet
- Glass Lewis Proxy Research
- William O'Neil & Co. Panaray
- BWS Financial Inc.
- Vertical Research
- Singular Research

The soft dollar commission payment expectation under the soft dollar arrangements is at a current ratio of 1.5:1 (i.e. 1.5 times the actual cost of the research product). Generally, the commission cost is approximately 3 cents per share for soft dollar transactions; however, we can pay more if we believe that the amount of additional commission is reasonable in relation to the value of the brokerage and research services received.

#### ***D. Initial and Secondary Public Offering (IPO & SPO) Allocation Policy***

From time to time, Rice Hall James invests in shares of initial public offerings ("IPOs") and secondary public offerings ("SPOs") for certain of our clients. Currently, Rice Hall James only invests in IPOs for clients in the Micro Cap Equity strategy. The opportunity to invest in IPOs and SPOs can be limited by lack of available number of shares issued under the offering.

For the instances we do not receive an adequate allocation, we may not be able to distribute the IPO or SPO shares across all the participating accounts, which could create a conflict of interest.

To address this conflict of interest, we have adopted written policies and procedures, which generally state that for the instances we are not allocated the full amount of shares of an IPO or SPO we requested, the participating accounts would generally receive shares on a pro-rata basis. This is meant to ensure that, over time, all eligible accounts have an equivalent opportunity to participate in IPOs and SPOs.

For any clients that did not participate in an IPO or SPO, the portfolio manager(s) may purchase shares in the aftermarket (after the IPO or SPO begins trading on an exchange), which may occur at higher prices than the initial offering price, but only if the portfolio manager has determined that the purchase is appropriate for those clients and not cost prohibitive.

#### ***E. Trade Rotation Policy***

Rice Hall James maintains a Trade Rotation Policy to provide a fair method of trade rotation in placing trades for all our clients' accounts, including our affiliated Mutual Fund Clients. To meet this objective, we follow written trade rotation procedures and utilize a trade rotation log. Clients are categorized by groups and the procedures are designed so that each group will systematically move down in the trade rotation on a per trade basis. A trade rotation log is utilized to help us with our efforts to ensure each client (or group of clients) is treated fairly to the extent reasonably practicable.

For the accounts where Rice Hall James is only managing a model portfolio (i.e. UMA accounts and two Mutual Fund Clients), the recommendations for trades are provided to the UMA Sponsor and Mutual Fund Client prior to 8:30 am, after market close, or as a rotation group in accordance with these clients' instructions.

#### ***F. Aggregation of Orders***

From time to time, Rice Hall James determines, based on a variety of reasons that the purchase or sale of a particular security is appropriate for multiple advisory accounts, which can include Direct Clients, Mutual Fund Clients, Wrap Clients, Sub-Advisory Clients, CCF Client, RHJ CIT, and other proprietary and/or Employee Managed Accounts. When this happens, we usually determine that it is in the clients' best interest to attempt to place the trade orders as one or more block trades (i.e., aggregate the individual trade for each account into one or more trade orders). These circumstances give rise to actual or potential conflicts of interest among the accounts for whom the security purchase or sale is appropriate, and among the subset of those accounts actually participating in a block trade; especially if the block trade order results in a partial fill. In order to address these conflicts, we have adopted certain policies and procedures we follow when aggregating trades in an effort to provide an objective and equitable method of trade allocation so that all participating clients will be treated fairly.

Specifically, trade orders for the same security on behalf of more than one client will be aggregated (i.e., blocked or bunched), with the exception of wrap program and directed brokerage clients. Subsequent orders for non-wrap and non-directed brokerage clients for the same security entered during the same trading day may be aggregated with any previously



unfilled orders. Already filled orders shall be allocated separately from subsequent orders. All clients participating in each aggregated order shall receive the average price of that particular aggregated execution.

Generally, an aggregated order that is only partially filled at the end of the day will be allocated pro-rata, unless a different allocation is determined to be in the participating clients' best interest.

The basic objectives of these policies and procedures are as follows:

- (a) Rice Hall James will aggregate trades when we believe that such aggregations are consistent with our duty to seek best execution for our clients.
- (b) We will strive to ensure that no account is favored over any other account.
- (c) Each account that participates in an aggregated transaction shall participate at the average of the executed share price for that security.

Transactions for clients directing us to use certain broker-dealers for trading (i.e. directed brokerage) and transactions for Wrap Clients and other program clients will not be aggregated with other client accounts, but rather will be placed separately with their respective broker-dealers. Please refer to the section above on "Trade Rotation" for further information.

#### ***G. Directed Brokerage***

In some instances, a client can instruct Rice Hall James to execute some or all securities transactions for its account with or through one or more brokers designated by the client.

In such cases, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such broker and his or her own satisfaction with such terms and conditions.

We do not assume any responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such client's account. The client must recognize that it may not obtain commission rates as low as it might otherwise obtain if we had discretion to select broker-dealers other than those chosen by the client and, as a result may not receive best execution on transactions due to the client's direction. Clients should also be aware that conflicts may arise between a client's interest in receiving best execution with respect to transactions effected for the client's account and our interest in potentially receiving future client referrals from the broker.

Any client instruction to Rice Hall James regarding brokerage transactions must be in writing. Additionally, any client request to Rice Hall James to cease executing transactions with or through any such broker-dealer, must also be in writing.

When Rice Hall James provides advisory services under various Wrap Programs, we are usually directed in the wrap agreements to place transactions with the Wrap Sponsor or its affiliated broker-dealer for execution. In some cases, we may have discretion to select brokers for execution, but it is anticipated that most transactions for clients in Wrap Programs will be placed with the Wrap Sponsor or affiliated broker because of the favorable commission schedule and the charges that would be imposed on the Wrap Client's account for trading away from the Wrap

Sponsor. Therefore, clients in Wrap Programs must be aware that Rice Hall James is generally not free to seek best execution by placing transactions with other brokers or dealers.

In evaluating a bundled fee program, like a Wrap Program, the client should recognize that Rice Hall James is not negotiating brokerage commissions on behalf of the client. Further, with a bundled fee program, a client should also consider, depending upon the level of the single fee charged under the program, the package of services provided, the amount of the portfolio activity in the account and the value of the custodial and portfolio monitoring services, the single fee may be higher or lower than the total cost of all the services the client is receiving had the client been able to pay for each service separately. Please refer to **Item 5** for further information on fee arrangements.

### ITEM 13: REVIEW OF ACCOUNTS

Each client account is assigned a primary portfolio manager and backup manager. There are 9 portfolio managers that generally manage between 1 to 100 clients each, with the exception of the portfolio managers of the Opportunities strategies, which manage 1 to 290 clients as a team. The specific number of accounts assigned to each manager depends upon the complexity and nature of the account as well as other responsibilities the individual has within the firm. The primary portfolio manager reviews accounts on a monthly basis at a minimum. Accounts are also reviewed when significant cash flow notifications are received. The Investment Team is responsible for the stock selections according to the investment guidelines of the chosen product in client accounts. The Team meets at least weekly and any other time when a security is to be considered for the clients' portfolios, has hit its upside target or experiences deteriorating fundamentals. A comprehensive review of stocks owned in portfolios is performed continually. Operations Administrators in the Rice Hall James Operations Department are responsible for trade settlement and custodian reconciliation. To settle trades, Operations Administrators download confirmations for review and settle trades accordingly. Operations Administrators review custodian statements and reconcile each statement to our records. The Operations Department has approximately 6 employees. Operations Administrators are assigned accounts by custodian relationship and each are responsible for reconciling between 50 and 200 accounts. This activity is overseen by the Director of Operations.

A Schedule of Assets is provided to Direct Clients for each managed account on either a monthly or quarterly basis, as elected by each such client. The Schedule includes a summary of investments by security type and detail which includes purchase date, quantity, tax cost, market value, dividend rate, yield and projected income. Purchases and sales for the month are also detailed. A summary of income earned and gain/loss information is also reflected on the statement. Details regarding realized capital gains and losses are mailed at the end of each fiscal or calendar year. Clients also can tell us if they wish not to receive such reports.

For Wrap Clients, Rice Hall James is generally not required to provide statements. Clients receive account statements from their respective custodians at least quarterly. Clients are urged to compare their custodian statements with reports provided by Rice Hall James.

## ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

### *A. Economic Benefits Received*

Rice Hall James has soft dollar arrangements with various broker-dealers. Please refer to **Item 12** for detailed information regarding these arrangements.

Rice Hall James has relationships with many brokers, some of which refer clients to us. We do not pay any fees to the referring broker for the referral and we do not direct transactions to any particular broker-dealer in return for client referrals. However, Rice Hall James does, from time to time, place transactions through a broker-dealer that refers clients when Rice Hall James believes such broker-dealer can provide best execution. While the trade placement is not the result of client referrals, it does cause a potential conflict of interest due to the fact that Rice Hall James does have that incentive. Rice Hall James does not include client referrals among the criteria it considers in broker selections, which is outlined above.

If a broker refers a client, the client may instruct Rice Hall James to direct all of that client's brokerage to the referring broker. When a client directs trading, it also results in compensation to the referring broker. Rice Hall James may not be able to obtain volume discounts or best execution when a referring broker is used to execute transactions for a client. Please refer to **Item 12** for complete information on directed brokerage arrangements and the firm's trading practices.

### *B. Compensation for Client Referral*

Rice Hall James has entered into one or more written agreements ("solicitation agreements") with one or more unaffiliated individuals and/or organizations that solicit clients for us. All solicitation agreements are made in writing and comply with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940 (the "Act"). While the specific terms of each solicitation agreement may differ, a solicitor's compensation is generally based upon new client engagement and retention, and is calculated using a varying percentage interest of the fees paid to Rice Hall James by its clients. In all solicitation agreements that we enter into, each solicitor must make certain representations regarding its licensing status, ethical standards and disciplinary history. Each solicitor must agree to advise us immediately of any change in such representations. In addition, the prospective client being referred to us will receive a copy of our "Disclosure Brochure," which is a then current copy of our ADV Part 2A; in addition to a document disclosing the solicitation arrangement and information on the solicitor's fee being received by the solicitor for making the referral. The solicitor or Rice Hall James will obtain the client's signature on the document acknowledging receipt of the Disclosure Brochure and the written document. Please refer to Item 5 in Form ADV Part 1 for information on the number of solicitors we currently use.

Rice Hall James does pay certain employees based on clients brought into the firm, which is usually based on a percentage of the fees paid by the client.

## ITEM 15: CUSTODY

All Rice Hall James clients' funds and securities (cash, securities and other assets) are held in the custody of unaffiliated broker-dealers or banks ("qualified custodians"). Rice Hall James, therefore, has no physical possession of client assets. Under Rule 206(4)-2 (the "Custody Rule") under the Investment Advisers Act of 1940, as amended, an investment adviser is also deemed to have "custody" of client funds or securities if it "has any authority to obtain possession of them, in connection with advisory services" it provides to its clients. "Custody" also includes any arrangement under which an investment adviser is authorized or permitted to withdraw client funds or securities maintained with a custodian, upon the adviser's instruction to the custodian.

Under its investment advisory agreements with its clients, Rice Hall James' investment discretion is limited to trading authority; it therefore does not have access to or "custody" of client assets because it lacks the power to dispose of client funds or securities for any purpose other than authorized trading. However, Rice Hall James is deemed to have limited custody of certain client funds under the Custody Rule due to the fact that it has authority to instruct the qualified custodian of client accounts to deduct its investment advisory fees directly from a client's account. Rice Hall James also has the authority with respect to some client accounts to withdraw and transfer those clients' funds to designated third parties pursuant to a standing letter of instruction or similar asset transfer authorization arrangement ("SLOA Arrangement") established by a client with a qualified custodian.

Rice Hall James employs various safeguards and procedures to balance or effectively eliminate its limited "custodial" powers. Accordingly, all clients will receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets, and the account statements reflect all client holdings in the account, along with all transactions, additions and withdrawals (including advisory fees) that took place during the statement period. Clients are urged to carefully review all custodial statements and compare them to the account statements and reports provided by Rice Hall James. Our statements and reports vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities. With respect to any SLOA Arrangement, Rice Hall James has implemented processes and procedures necessary to comply with the seven conditions set forth in the SEC relief granted to the Investment Adviser Association (SEC Staff No-Action Letter February 21, 2017), and in general consistent with the principles laid out in the SEC's IM Guidance Update regarding inadvertent custody (Division of Investment Management, No. 2017-01, February 2017).

Please refer to **Items 10 and 12** for additional important disclosure information relating to Rice Hall James' practices and relationships with custodians.

## ITEM 16: INVESTMENT DISCRETION

### *A. Discretionary Authority; Limitations*

Rice Hall James has full investment discretion for the management and trading of client accounts, with the exception of one Mutual Fund Client and UMA accounts. Each client grants Rice Hall James a limited power of attorney for the management and trading of assets by entering into an investment management or similar agreement with Rice Hall James.

Clients can place reasonable restrictions on Rice Hall James' investment discretion by establishing guidelines or restrictions in the investment management or other contract between the client and Rice Hall James.

### *B. Limited Power of Attorney*

Rice Hall James is authorized to exercise full discretionary trading authority via a limited power of attorney contained in written agreements between Rice Hall James and our clients, with the exception of one Mutual Fund Client and UMA accounts. We are designated as a client's attorney-in-fact with discretionary authority to invest and trade assets, and to give instructions to third parties accordingly.

## ITEM 17: VOTING CLIENT SECURITIES

### *A. Proxy Voting Policies and Procedures*

Rice Hall James' policy is to vote all shares held on behalf of clients unless the client specifically retains the responsibility or allocates that responsibility in writing to another party.

We have adopted Proxy Voting Policies and Procedures and utilize a third party proxy voting service to assist in monitoring and voting client proxies. We will vote client proxies in a manner we believe is in the economic best interest of each client, which may result in different voting of proxies for the same issuer. Rice Hall James has adopted written proxy voting guidelines that reflect how we will vote certain proxies; however, we may vote a proxy contrary to these guidelines if we determine that such action is in the best interest of one or more clients. Generally, if a conflict of interest arises, we will vote in accordance with the written guidelines of the third party proxy voting service.

A client may request a complete copy of the Rice Hall James current Proxy Voting Policies and Procedures, the voting guidelines and/or information on how we have voted proxies for your account(s) by either emailing us at [info@ricehall.com](mailto:info@ricehall.com) or by submitting a written request to:

**Rice Hall James Proxy Voting Info**  
600 West Broadway, Suite 1000  
San Diego, CA 92101

***B. Class Action Filings***

A securities "class action" lawsuit is a civil suit brought by one or more individuals on behalf of themselves and others who have the same grievance against the issuer of a certain security. Under our standard agreement with clients, we have the responsibility to file class actions on behalf of the client, unless the client retains such responsibility or allocates such responsibility to another party in writing.

**ITEM 18: FINANCIAL INFORMATION**

Rice Hall James does not require or solicit prepayment of more than \$1,200 in fees per client, for six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. We are not aware of any financial condition reasonably likely to impair our ability to meet our contractual commitments to our client, nor have we been the subject of a bankruptcy petition.