



RHJ's **International Small Cap Value** strategy's investment philosophy is centered on investing in businesses with sustainable profitability, strong competitive moats, and sound capital allocation strategies, whose valuations imply overly pessimistic future profitability. Our investment universe consists of companies with market capitalizations ranging between \$30 million and \$8.5 billion.¹

STRATEGY OVERVIEW

September 30, 2020

Inception Date: April 1, 2015

Benchmark: MSCI EAFE Small Cap

Avg. Composition: 50 - 70

Management: **Eric Fuhrman, CFA**
17 yrs industry experience

Andrew Rothstein, CFA
15 yrs industry experience

VALUE PROPOSITION

LONG TERM-ORIENTED

Investment opportunities are created by pervasive short-termism and the overuse of simple accounting statement based rations.

Short-termism, which stems from hardwired human emotion, provides us with a constant pipeline of opportunity to methodically uncover undervalued, high quality businesses.

QUALITY-FOCUSED

Screen for companies that have sustained above cost of capital CFROI generation through a market cycle.

Identify businesses with sustainable profitability, strong competitive moats, and sound capital allocation strategies.

RISK-CONTROLLED

Mitigate risk by investing in securities with predictable financial statements and valuations that imply a margin of safety.

Monitor risk by identifying changes in corporate performance and by understanding and managing exposures created by our bottom-up investment process.

COMPOSITE PERFORMANCE

As of September 30, 2020
Calculated in U.S. Dollars

	3Q20	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
International Small Cap [Gross]	11.34%	-6.93%	9.29%	0.84%	7.34%	-	-	6.87%
International Small Cap [Net]	11.34%	-6.94%	9.26%	0.49%	6.78%	-	-	6.29%
MSCI EAFE Small Cap Index	10.25%	-4.20%	6.84%	1.40%	7.37%	-	-	6.13%

Past performance does not guarantee future results. For performance calculation purposes, the composite contains all fully discretionary portfolios invested in the International Small Cap strategy. Indices are provided for comparative purposes only. An investor cannot invest directly in an index.

INVESTMENT PROCESS

Our process utilizes a combination of quantitative screening and fundamental analysis. This process is designed to minimize behavioral biases and identify sustainable businesses with competitive advantages whose valuations imply a reasonable bear case scenario, providing us with a significant potential for return and an adequate margin of safety.

Cornerstones of our investment process include:

Quantitative Screening

- Sustained CFROI generation through a market cycle
- Manageable leverage
- Low market implied valuation

Fundamental Analysis

- Competitive Position: Does the business have a sustainable competitive moat?
- Capital Allocation: Is management creating shareholder wealth?
- Behavioral: Why is the stock cheap/inexpensive?
- Risk Assessment: What could go wrong with this investment?

Valuation

- Reverse DCF: Determine what future profitably is priced in
- Margin of Safety: If things go wrong can we still earn a return?
- Skewed Reward/Risk: Invest when market applies a bear case scenario

Risk Management

- Employ a proprietary weekly risk report
- Monitor factor exposures
- Measure performance against a custom benchmark

¹The selection universe 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. Please refer to additional disclosures at the end of this document.



International Small Cap Strategy

Third Quarter 2020

FIRM HIGHLIGHTS

September 30, 2020

Research-driven firm founded in 1974

Firm assets under management + Firm assets under advisement: \$2.9 billion

Ownership

- Independent and 100% employee-owned
- RHJ is focused solely on investment management with no other lines of business

Personnel

- 32 employees, including 11 owners averaging 28 years of industry experience and 20 years with Rice Hall James
- Stable, long-term leadership emphasizing retention of talent, preservation of culture

RHJ Clients

- Clients include leading Foundations/Endowments, Corporations, Multi-Employers, Public Funds, Hospitals and Financial Institutions

PORTFOLIO CHARACTERISTICS

As of September 30, 2020

Descriptive

Number of Holdings	58	
Weighted Average Market Cap	\$3.16 billion	
Dividend Yield	2.2%	
Active Share	95.7%	

Traditional Metrics

P/E Ratio - 1 Year Forecast ¹	18.1	19.1
Price-to-Book	3.2	3.9
EV/EBITDA	11.6	17.4
Operating Margin	17.7%	15.9%
ROE	14.3%	10.9%
ROIC	6.5%	5.2%
Debt/Capital	25.3%	60.9%

HOLT Metrics

Economic P/E	24.3	30.2
HOLT P/B	2.7	3.4
CFROI LFY	12.3%	9.2%
CFROI 5 Year Median	12.7%	10.4%
Fixed Charge Coverage Ratio	1.6	1.3
Probability of Default	0.7%	2.4%

¹P/E Ratio calculation excludes companies with negative earnings.

Portfolio characteristics are sourced by FactSet & Credit Suisse HOLT[®] and based on a representative account.

GICS SECTOR & REGIONAL WEIGHTINGS

As of September 30, 2020

GICS Sector Weightings

	Industrials	Info. Tech.	Comm. Services	Materials	Energy	Consumer Disc.	Financials	Consumer Staples	Utilities	Real Estate	Health Care	Cash
International Small Cap	31.9%	12.1%	5.4%	8.1%	1.2%	12.3%	8.7%	5.0%	0.0%	8.8%	3.2%	3.3%
MSCI EAFE Small Cap Index	22.1%	11.0%	4.8%	8.2%	1.5%	13.1%	9.8%	6.8%	2.7%	12.3%	7.7%	0.0%
Active Weights	9.8%	1.1%	0.6%	-0.1%	-0.3%	-0.8%	-1.1%	-1.8%	-2.7%	-3.5%	-4.5%	3.3%

Regional Weightings

	Eurozone	Japan	Europe Ex Euro	Britain	Other	Non Japan Asia	Cash
International Small Cap	24.6%	31.1%	15.7%	14.9%	0.0%	10.6%	3.2%
MSCI EAFE Small Cap Index	20.2%	31.0%	17.0%	16.3%	2.1%	13.3%	0.0%
Active Weights	4.4%	0.1%	-1.3%	-1.4%	-2.1%	-2.7%	3.2%

Sector Weightings Sources: FactSet; GICS Sector Classification

Sector weightings may not add up to 100% due to rounding. Sector allocations are subject to change and are not a recommendation to buy or sell any security. A representative account is used for portfolio sector weights.



RICE HALL JAMES & ASSOCIATES, LLC

Disclosures

This piece is being provided for informational purposes only and should not be considered investment advice or a recommendation to buy or sell any types of securities, and no investment decision should be made based solely on the information provided herein. All investments involve risk, including loss of principal invested. Past performance does not guarantee future results. Individual client accounts may vary. The strategy and investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Founded in 1974, Rice Hall James & Associates, LLC is an SEC registered investment adviser however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made. The firm is 100% employee owned. Composite returns are annualized for periods greater than one year. Performance figures include reinvestment of dividends and other earnings. The U.S. Dollar is the currency used to express performance. For performance calculation purposes, the composite's inception date is April 1, 2015, and contains all fully discretionary portfolios invested in the International Small Cap strategy. Prior to March 16, 2019, net returns were computed using the model management fee of 0.80%. After March 16, 2019, net returns were calculated using actual management fees. This composite contains non-fee paying accounts, which represent 100% of the composite. Rice Hall James & Associates, LLC claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A GIPS Composite Report is available upon request at the following address: 600 West Broadway, Suite 1000, San Diego, California 92101.

Comparisons have limitations because indices may have volatility, investment and other characteristics that may differ from an investment account strategy to which it is compared. Indices are unmanaged, include the reinvestment of dividends and do not reflect transaction costs, management or other fees. Indices are provided for comparative purposes only. An investor cannot invest directly in an index. The MSCI EAFE Small Cap Index is an equity index which captures small cap representation across Developed Markets countries around the world including Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK; excluding the U.S. and Canada.

Index Definition Source: MSCI Inc.

Risk - *The market value of stocks will fluctuate with market conditions, and small cap and micro cap stock prices generally will move up and down more than large cap stock prices. Small cap and micro cap stocks may be subject to a higher degree of risk than more established (large cap) companies' securities. The illiquidity of the small cap and micro cap market may adversely affect the value of client investments. Past performance does not guarantee future results.*

GICS Sector Classification - *The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by Rice Hall James & Associates, LLC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classification have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.*

Source: GICS Sector Classification

Glossary

Active Share - This is a measure of the percentage of stock holdings in the portfolio that differs from the benchmark index. Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the portfolio versus the weight of each holding in the benchmark index and dividing by two.

CFROI® - CFROI is an approximation of the economic return, or an estimate of the average real internal rate of return, earned by a firm on the portfolio of projects that constitute its operating assets.

CFROI® 5 Year Median - The median of Credit Suisse HOLT's CFROI® for the last five reported fiscal years. As sorting and screening variables, median CFROIs are used to rank and identify companies by their typical CFROI level over a specified number of years. Medians are used because CFROI levels can change substantially year-to-year and thus any single CFROI could be non-representative of the firm's profitability. At least 4 observations must be available to calculate the median value.

Debt/Capital - This is calculated as Total Debt divided by total capital.

Dividend Yield - Dividend yield based on the indicated dividend or the annualized last paid dividend and the most recent closing price.

Economic P/E - HOLT Economic PE is comparable to traditional price to earnings. When scoring on economic PE, a lower multiple should get a higher score. Typically, an early life-cycle company with high growth but with modest returns, would display a higher economic P/E multiple in the same way higher traditional PEs might be seen in those same growth sectors. Economic PE is calculated as HOLT Value/Cost ratio divided by the forecast CFROI comparable to a traditional price/book divided by ROE,

EV/EBITDA - EV (Enterprise Value) is given by: $EV = \text{Market Cap} + \text{LT Debt} + \max(\text{ST Debt} - \text{Cash}, 0)$, where LT (ST) stands for long (short) term. The Enterprise Value to EBITDA ratio is the current Enterprise Value divided by the Earnings Before Interest, Taxes, Depreciation, and Amortization.

Fixed Charge Coverage Ratio - A measure of a firm's financial health, the ratio takes into account all cash outflows for expenses and for shareholders indicating the safety of equity cash flows, such as dividends. The HOLT fixed charge ratio is calculated by taking gross cash flow divided by fixed charges: rent, research and development expenses, adjusted interest expense, common dividends, and capital expenditures. Companies with a higher ratio can absorb adverse economic events before jeopardizing its ability to meet its fixed charges. A firm's liquidity can be threatened if this ratio is negative over several years.

HOLT P/B - The sum of the market values of debt and equity, including the value of minority interest divided by the current inflation-adjusted net assets plus the market value of investments for the current fiscal year. HOLT Value to Cost is comparable to a traditional Price to Book Ratio.



RICE HALL JAMES

& ASSOCIATES, LLC

Disclosures

Glossary (Continued)

Operating Margin - Operating margins represents underlying operating profitability. Calculated as net sales less cost of goods sold and SG&A plus other income, stock option expense, R&D, and operating lease expense as a percentage of net sales for the last fiscal year.

P/E Ratio - 1 Year Forecast - A forward-looking valuation measure of a company's common stock, excluding negative earnings. It encapsulates the amount of earnings estimated for next year per dollar of current share price. For the portfolio, the individual P/E stock ratios are then weighted by their respective portfolio market values in order to calculate a weighted average representative of the portfolio as a whole.

Price-to-Book - The Price to Book value ratio is the current price divided by the latest quarterly Book Value Per Share. The Book Value Per Share is lagged 45 days by default for the formula.

Probability of Default - The Probability of Default (PoD) represents the likelihood that that the firm will default on its debt. Results indicate that PoD is a valuable risk factor that can be used for risk analysis/optimization to complement traditional HOLT alpha factors.

ROE - Returns the market weighted average of the Return on Equity Percent for the securities in the holder's portfolio for a FactSet Global Ownership holder identifier.

ROIC - Represents the return on average invested capital.

Sources: Credit Suisse *HOLT*[®], FactSet