



## SMID Cap Opportunities Strategy

## Third Quarter 2020

RHJ's **SMID Cap Opportunities** Strategy employs a fundamental, bottom-up analytical process to identify companies that meet three primary criteria: high earnings growth, high or improving return-on-invested capital (ROIC), and sustainable competitive advantages. Our philosophy is rooted in historical analysis indicating the high relative return potential of these factors in combination. We believe that superior results can be achieved by owning companies that exhibit not only high earnings growth, but also the ability to sustainably generate high ROIC over long periods of time. Our investment universe consists of companies with market capitalizations between \$250 million and \$14 billion at the time of purchase.<sup>1</sup>

### STRATEGY OVERVIEW

September 30, 2020

<b>Inception Date:</b>	January 1, 2016
<b>Benchmark:</b>	Russell 2500 Growth
<b>Strategy Assets:</b>	\$695 million <sup>2</sup>
<b>Avg. Composition:</b>	50-70 stocks
<b>Management:</b>	<p><b>Lou Holtz, CFA</b> 29 yrs industry experience</p> <p><b>Yossi Lipsker, CFA</b> 26 yrs industry experience</p>

### VALUE PROPOSITION

#### LONG TERM-ORIENTED

Long-term focus affords time and opportunity to develop an **informational edge** on companies and their management teams

#### QUALITY-FOCUSED

We invest in companies that generate **high or improving return-on-invested capital** in addition to having what we consider **sustainable competitive advantages**

#### RISK-CONTROLLED

Seek to structure portfolio weightings on a risk-adjusted basis in our **highest-conviction ideas**

### 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
<b>SMID Cap Opportunities [Gross]</b>	5.14%	3.11%	13.70%	7.25%	-	-	-	10.48%
<b>SMID Cap Opportunities [Net]</b>	5.05%	2.81%	13.26%	6.69%	-	-	-	9.99%
Russell 2500 Growth Index	9.37%	11.58%	23.37%	13.36%	-	-	-	14.10%

*Past performance does not guarantee future results. For performance calculation purposes, the composite contains all fully discretionary, tax-exempt institutional and high net worth portfolios invested in the SMID Cap Opportunities strategy. Indices are provided for comparative purposes only. An investor cannot invest directly in an index.*

### INVESTMENT PROCESS

The heart of our process is bottom-up analysis at the company level. The portfolio managers conduct fundamental research on every company held in the portfolio. As generalists each with over twenty years of investment experience, both bring to bear extensive knowledge of the companies they own or follow, understanding of industries, and general expertise on the small cap landscape in various market environments.

Cornerstones of our bottom-up fundamental investment process include:

- Clear understanding of a firm's competitive context and advantages
- Assessment of the sustainability characteristics of the underlying business
- Emphasis on high or improving ROIC; a clear sense of the future direction of ROIC
- Estimation of ability to generate and grow free cash flow over life of the investment
- Valuation that we believe affords a reasonable return over investment horizon
- Scrutiny of company management, ability to identify/execute on the right plan

<sup>1</sup>The selection universe consists of companies with market capitalizations between \$250 million and \$14 billion. This range is re-evaluated each year at the time of reconstitution of the Russell 2500 Growth Index. Please refer to additional disclosures at the end of this document.

<sup>2</sup>Strategy assets include assets under management and assets under advisement.



### 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

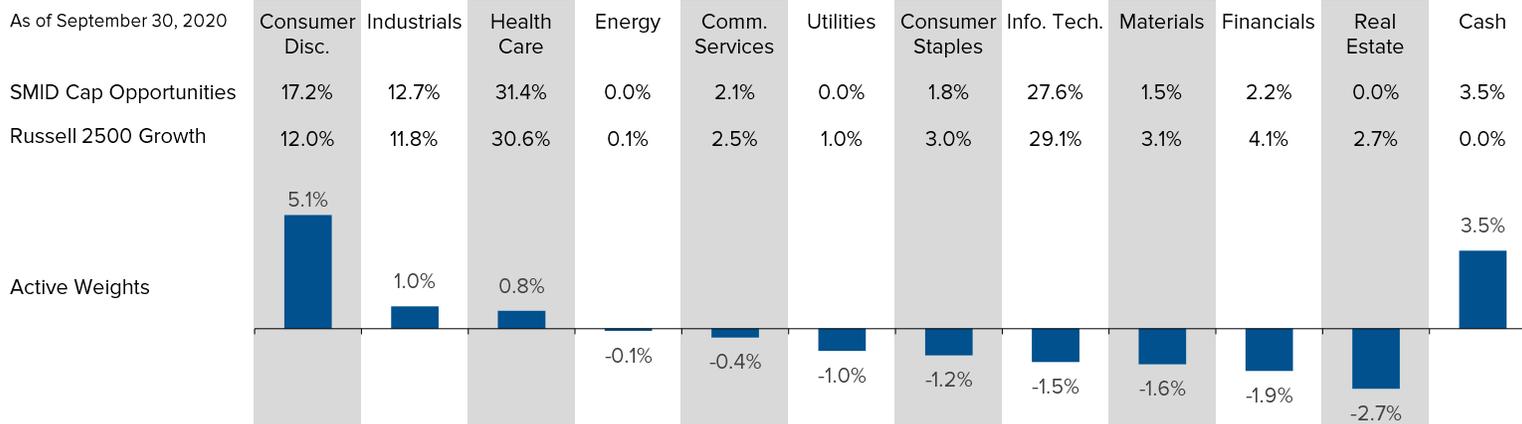
As of September 30, 2020

	RHJ SMID Cap Opportunities	Russell 2500 Growth Index
Number of Holdings	62	1,291
Portfolio Turnover (3 year annual average)	21%	-
Long-Term Earnings Growth Forecast	15.8%	16.9%
P/E - 1 Year Forecast <sup>1</sup>	19.4	24.0
Return on Equity (5 years)	-3.0%	-7.5%
Weighted Median Market Cap (billion)	\$4.76	\$4.82
Weighted Average Market Cap (billion)	\$7.43	\$6.06
Active Share	92.7%	-

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

Portfolio characteristics are generated by FactSet and based on a representative account.

### PORTFOLIO SECTOR WEIGHTING



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.



## 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 January 1, 2016, and contains all fully discretionary, taxable and tax-exempt, institutional and high net worth portfolios invested in the SMID Cap Opportunities strategy. 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. Russell 2500™ Growth Index-Constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. It includes those Russell 2500 companies with higher growth earning potential as defined by Russell's leading style methodology. Russell 2500™ Index-Constructed to provide a comprehensive and unbiased barometer of the small to mid-cap segment and includes the smallest 2500 securities in the Russell 3000® Index.*

Index Definition Source: FTSE Russell

**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.*

**Long-Term Earnings Growth Forecast** - *Long Term Growth [LTG] is the annual EPS growth that the company can sustain over the next 3 or 5 years.*

**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.*

**Return on Equity** - *This statistic reflects the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.)*

Glossary Source: FactSet