



## SMID Cap Equity Strategy

## First Quarter 2021

RHJ's **SMID Cap Equity** offers a risk-aware application of sustainable growth investing, seeking to uncover and capitalize on smaller, growing, undervalued companies that stand to offer higher return potential. The SMID Cap Equity portfolio is comprised of reasonably priced, less-visible companies with unique business concepts or niche products that we believe are ripe for growth but also well-positioned and sound enough to mitigate downside compared to higher-profile growth peers. Our bottom-up, fundamental stock selection process singles out companies with a market capitalization ranging between \$1.5 billion and \$12.0 billion.<sup>1</sup>

### STRATEGY OVERVIEW

March 31, 2021

**Inception Date:** January 1, 1997

**Benchmark:** Russell 2500 Growth

**Strategy Assets:** \$7 million

**Avg. Composition:** 35 - 45 stocks

**Management:** Team-managed

### VALUE PROPOSITION

#### Depth of experience, continuity of process

Seasoned team of small/mid cap specialists averaging 28 years' professional experience and many years practicing this philosophy together at RHJ

#### Small size and entrepreneurial culture

Focused organizational structure promotes strict, collaborative focus on investment management

#### Disciplined investment strategy

The RHJ philosophy has been applied in and endured various market cycles and environments over its twenty-year track record

### INVESTMENT PHILOSOPHY

Per our philosophy, the optimal investment solution avoids market extremes and relies on fundamental, bottom-up research to deliver favorable risk-adjusted returns over the long-term. Through a fundamentally based valuation framework, we exercise the following beliefs:

- Growth stocks are attractive only when purchased at a reasonable price
- Investment in high-quality companies with sustainable earnings growth can deliver greater potential for positive alpha
- Valuation inefficiencies are captured over the long term – typically 12 to 24 months
- Superior returns are a function of the impact of a catalyst on a stock's price; an effective active manager should be able to produce and successfully trade on a more insightful view of these catalysts relative to peers or the market

### COMPOSITE PERFORMANCE

As of March 31, 2021  
Calculated in U.S. Dollars

	1Q21	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception January 1, 1997
<b>SMID Cap Equity [Gross]</b>	8.87%	57.09%	6.84%	9.19%	6.43%	7.24%	9.29%
<b>SMID Cap Equity [Net]</b>	8.65%	55.80%	5.98%	8.28%	5.49%	6.28%	8.50%
Russell 2500 Growth Index	2.49%	87.50%	19.96%	19.91%	14.32%	14.21%	9.80%

Past performance does not guarantee future results. Composite returns are shown both gross and net of fees in U.S. dollars. Rice Hall James & Associates, LLC's compliance with the GIPS standards has been verified for the period January 1, 1993 through December 31, 2019. RHJ's GIPS Report is located at the end of this presentation as well as other important disclosure information regarding the returns and indices shown above.

### INVESTMENT PROCESS

At RHJ, organizational structure, entrepreneurial spirit and collaborative culture maximize the latitude for our Portfolio Managers/Analysts to explore unconventional ideas, identify potential catalysts, and ultimately develop the investment case during the idea generation phase.

Once a Portfolio Manager/Analyst emerges with his or her investment recommendation, the Portfolio Construction process begins with the senior team reviewing and voting to approve each new idea brought forward; the process incorporates various risk controls designed to ensure that each holding honors our investment criteria. Throughout the holding period, the team routinely assesses whether or to what extent the case is materializing; risk/reward outcomes and changes to outlook are monitored closely throughout the holding period.

#### IDEA GENERATION/ INVESTMENT CRITERIA

##### Growth

- Projected growth rate generally 15% - 30%
- Emphasis on both top-line and bottom-line growth

##### Valuation

- P/E Ratio < 3-year Future Earnings Growth Rate
- Inefficient pricing—alpha capture through both upside participation and downside protection

##### "Why Now" – Positive Fundamental Change

- Must be clearly identifiable, defined, and poised to realize investment upside within 2 years
- Recognition of catalyst should lead to investor awareness and price appreciation

##### Reward/Risk

- Target of 50-100% appreciation within 2 years; targets set, monitored during holding period
- Minimum 3:1 Reward-to-Risk ratio; risk/reward profile and conviction inform position size

##### RISK CONTROLS

- 3:1 Reward-to-Risk Ratio – strict implications for sell discipline, position size and holding period
- "Dead Wood Removal" – freedom to challenge or flag any holding for re-evaluation
- Price Targets - monitored closely, drive strict sell discipline and decisions to trim positions
- Downside mitigation through strict adherence to 3:1 up/down criterion

<sup>1</sup>The selection universe is tied to the capitalization range of the Russell 2500™ Index each year at the time of reconstitution. Please refer to additional disclosures at the end of this document.



## SMID Cap Equity Strategy

First Quarter 2021

### FIRM HIGHLIGHTS

March 31, 2021

Research-driven firm founded in 1974

Firm AUM + AUA: \$3.6 billion<sup>1</sup>

#### 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 21 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 March 31, 2021

	RHJ SMID Cap Equity	Russell 2500 Growth Index
Number of Holdings	46	1,353
Portfolio Turnover (3 year annual average)	39%	-
Long-Term Earnings Growth Forecast	14.3%	18.6%
P/E - 1 Year Forecast <sup>1</sup>	22.3	26.8
Return on Equity (5 years)	13.0%	-5.4%
Weighted Median Market Cap (billion)	\$7.42	\$5.80
Weighted Average Market Cap (billion)	\$9.76	\$7.58
Alpha (5 years)	-7.24	-
Beta (5 years)	0.90	-
Standard Deviation (5 years)	18.7%	19.5%
Sharpe Ratio (5 years)	0.43	-
Active Share	96.8%	-

Sources: eVestment & FactSet

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

The information above is based on a representative account. Please see important disclosure information at the end of this presentation regarding the indices shown above.

### PORTFOLIO SECTOR WEIGHTING

As of March 31, 2021	Industrials	Materials	Energy	Consumer Staples	Consumer Disc.	Utilities	Financials	Comm. Services	Real Estate	Info. Tech.	Health Care	Cash
SMID Cap Equity	24.1%	6.2%	2.2%	4.3%	13.0%	0.0%	2.3%	0.0%	0.0%	24.5%	22.7%	0.6%
Russell 2500 Growth	13.4%	3.1%	0.1%	2.9%	13.1%	1.0%	3.9%	2.4%	2.6%	29.0%	28.5%	0.0%
Active Weights	10.7%	3.1%	2.1%	1.4%	-0.1%	-1.0%	-1.6%	-2.4%	-2.6%	-4.5%	-5.8%	0.6%

Sector Weightings Sources: FactSet & GICS Sector Classification

The information above is based on a representative account. Sector weightings may not add up to 100% due to rounding. Please see important disclosure information at the end of this presentation regarding the indices and sector classification shown above.

<sup>1</sup>Assets include assets under management and assets under advisement.



## Disclosures

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For periods shown prior to April 1, 2015, the Russell Midcap Growth and Russell Midcap indices were used for comparison purposes. The benchmark was changed to more accurately reflect the strategy of the composite. Indices are provided for comparative purposes only. An investor cannot invest directly in an index. 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. 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 smaller cap stock prices generally will move up and down more than large cap stock prices. Smaller cap stocks may be subject to a higher degree of risk than more established (large cap) companies' securities. 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 trademark of S&P and MSCI. Neither MSCI, S&P nor any other party involved in making or compiling 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 or 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 any GICS classifications 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: S&P Dow Jones Indices LLC

## 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.

**Alpha** - The incremental return of a manager when the market is stationary. In other words, it is the extra return due to nonmarket factors. This risk-adjusted factor takes into account both the performance of the market as a whole and the volatility of the manager. A positive alpha indicates that a manager has produced returns above the expected level at that risk level, and vice versa for a negative alpha. Alpha is the Y intercept of the regression line.

**Beta** - This is a measure of a portfolio's volatility. Statistically, beta is the covariance of the portfolio in relation to the market. A beta of 1.00 implies perfect historical correlation of movement with the market. A higher beta manager will rise and fall more rapidly than the market, whereas a lower beta manager will rise and fall slower. For example, 1.10 beta portfolio has historically been 10% more volatile than the market.

**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.)

**Sharpe Ratio** - A measure of a fund's return relative to its risk. The return (numerator) is defined as the fund's incremental average return over the risk-free rate. The risk (denominator) is defined as the standard deviation of the fund's returns, and can be calculated by subtracting the risk-free rate from the average period return and dividing this number by the standard deviation for the period. In relative terms, a higher Sharpe ratio tends to indicate higher reward for risk.

**Standard Deviation** - This is a measure of the average deviations of a return series from its mean; often used as a risk measure. A large standard deviation implies that there have been large swings or volatility in the manager's return series.

Glossary Sources: eVestment Analytics & FactSet