



RHJ's **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 \$250 million and \$8.0 billion.<sup>1</sup>

### STRATEGY OVERVIEW

March 31, 2022

<b>Inception Date:</b>	July 1, 2007
<b>Benchmark:</b>	Russell 2000 Value
<b>Strategy Assets:</b>	\$26 million <sup>2</sup>
<b>Avg. Composition:</b>	60 - 80
<b>Management:</b>	<b>Eric Fuhrman, CFA</b> 19 yrs industry experience
	<b>Andrew Rothstein, CFA</b> 16 yrs industry experience

### VALUE PROPOSITION

#### LONG TERM-ORIENTED

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

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 March 31, 2022  
Calculated in U.S. Dollars

	1Q22	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception July 1, 2007
<b>Small Cap Value [Gross]</b>	-5.17%	2.47%	12.48%	8.02%	8.09%	11.06%	8.24%
<b>Small Cap Value [Net]</b>	-5.26%	2.08%	12.14%	7.49%	7.47%	10.35%	7.50%
Russell 2000 Value Index	-2.40%	3.32%	12.73%	8.57%	8.77%	10.54%	6.87%

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, 2020.

### 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 profitability is priced in
- Margin of Safety: If things go wrong can we still earn a return?
- Skewed Reward/Risk: Invest when market implies a bear case scenario

#### Risk Management

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

<sup>1</sup>The selection universe is tied to the capitalization range of the Russell 2000® Index each year at the time of reconstitution. Please refer to additional disclosures at the end of this document.

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



## Small Cap Value Strategy

First Quarter 2022

### FIRM HIGHLIGHTS

March 31, 2022

Research-driven firm founded in 1974

Firm AUM + AUA: \$2.9 billion<sup>1</sup>

Ownership

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

Personnel

- 31 employees, including 12 owners averaging 29 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, 2022

#### Descriptive

	RHJ Small Cap Value	Russell 2000 Value Index
Number of Holdings	65	1,436
Weighted Average Market Cap	\$4.24 billion	\$3.11 billion
Dividend Yield	1.7%	1.7%
Active Share	95.1%	-

#### Profitability

ROE	14.6%	8.1%
ROIC	7.1%	-1.0%
CFROI LFY	12.1%	6.5%
CFROI 5 Year Median	12.2%	7.5%

#### Valuation

P/E Ratio - 1 Year Forecast <sup>1</sup>	13.4	12.1
Price-to-Book	3.0	3.3
EV/EBITDA	16.1	43.4
Economic P/E	22.2	23.8
Operating Margin	21.2	19.7
HOLT P/B	2.8	1.8

#### Risk

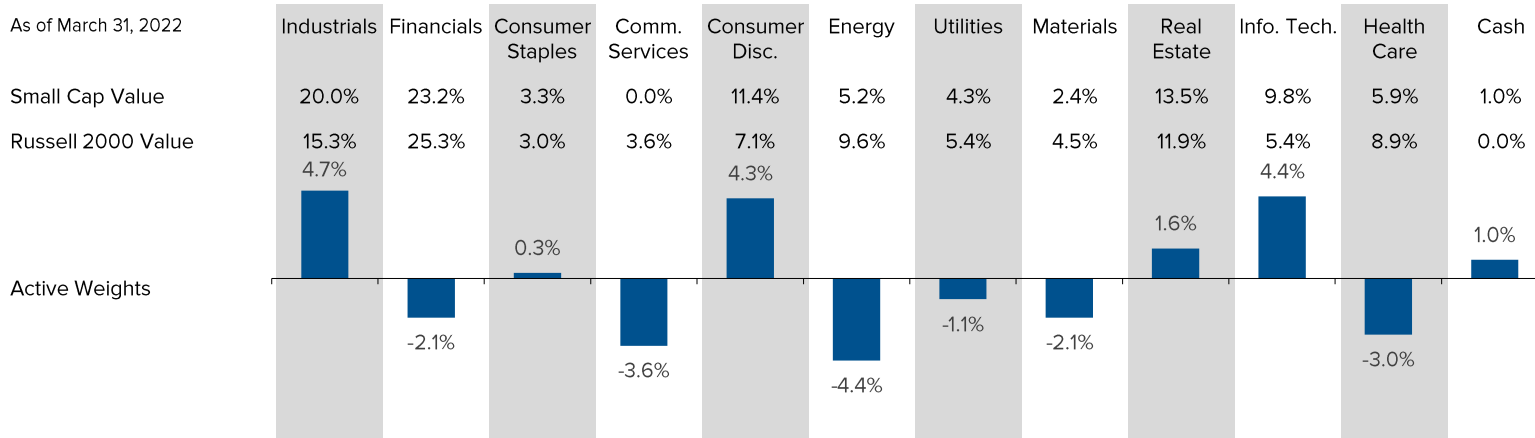
Debt/Capital	42.8%	45.7%
Probability of Default	1.5%	3.6%
Fixed Charge Coverage Ratio	2.1	1.7

Sources: FactSet & Credit Suisse HOLT<sup>®</sup>

<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



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

**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 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.

**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.

**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