



## SMID Cap Opportunities Strategy

Second Quarter 2022

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 \$18 billion at the time of purchase.<sup>1</sup>

### STRATEGY OVERVIEW

June 30, 2022

<b>Inception Date:</b>	January 1, 2016
<b>Benchmark:</b>	Russell 2500 Growth
<b>Strategy Assets:</b>	\$475 million <sup>2</sup>
<b>Avg. Composition:</b>	50-70 stocks
<b>Management:</b>	<p><b>Lou Holtz, CFA</b> 30 yrs industry experience</p> <p><b>Yossi Lipsker, CFA</b> 27 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 June 30, 2022

Calculated in U.S. Dollars

	2Q22	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception January 1, 2016
<b>SMID Cap Opportunities [Gross]</b>	-15.04%	-22.89%	3.92%	5.90%	-	-	7.97%
<b>SMID Cap Opportunities [Net]</b>	-15.13%	-23.22%	3.49%	5.37%	-	-	7.50%
Russell 2500 Growth Index	-19.55%	-31.81%	3.68%	7.53%	-	-	8.95%

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, 2021.

### 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 \$18 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

June 30, 2022

Research-driven firm founded in 1974

Firm AUM + AUA: \$2.4 billion<sup>1</sup>

#### Ownership

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

#### Personnel

- 30 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 June 30, 2022

Number of Holdings	65	1,371
Portfolio Turnover (3 year annual average)	19.0%	-
Long-Term Earnings Growth Forecast	15.0%	17.0%
P/E - 1 Year Forecast <sup>1</sup>	14.1	14.2
Return on Equity (5 years)	19.9%	5.7%
Weighted Median Market Cap (billion)	\$4.21	\$4.31
Weighted Average Market Cap (billion)	\$6.53	\$5.28
Alpha (5 years)	-1.12	-
Beta (5 years)	0.96	-
Standard Deviation (5 years)	22.05	21.84
Information Ratio (5 years)	-0.24	-
Active Share	94.3%	-

RHJ SMID Cap Opportunities	Russell 2500 Growth Index
65	1,371
19.0%	-
15.0%	17.0%
14.1	14.2
19.9%	5.7%
\$4.21	\$4.31
\$6.53	\$5.28
-1.12	-
0.96	-
22.05	21.84
-0.24	-
94.3%	-

Sources: FactSet & eVestment Analytics

<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 June 30, 2022	Industrials	Financials	Consumer Staples	Comm. Services	Consumer Disc.	Energy	Utilities	Materials	Real Estate	Info. Tech.	Health Care	Cash
SMID Cap Opportunities	7.9%	4.6%	2.7%	6.5%	16.7%	0.0%	0.0%	1.9%	0.0%	32.8%	24.3%	2.5%
Russell 2500 Growth	17.5%	6.9%	3.9%	2.0%	11.8%	5.2%	1.3%	5.2%	3.0%	24.0%	19.2%	0.0%
Active Weights	-9.6%	-2.3%	-1.2%	4.5%	4.9%	-5.2%	-1.3%	-3.3%	-3.0%	8.8%	5.1%	2.5%

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>Asset 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.

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. See below for a description of each index used in this presentation.

The Russell 2500® Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics.

**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.

Sources: FTSE Russell, 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.

**Information Ratio** - This statistic is computed by subtracting the return of the market from the return of the manager to determine the excess return. The excess return is then divided by the standard deviation of the excess returns (or Tracking Error) to produce the information ratio. This ratio is a measure of the value added per unit of active risk by a manager over an index. Managers taking on higher levels of risk are expected to then generate higher levels of return, so a positive IR would indicate "efficient" use of risk by a manager. This is similar to the Sharpe Ratio, except this calculation is based on excess rates of return versus a benchmark instead of a risk-free rate.

**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.)

**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: FactSet & eVestment Analytics