



## SMID Cap Opportunities Strategy

Fourth 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

December 31, 2022

|                          |   |
|--------------------------|---|
| <b>Inception Date:</b>   | January 1, 2016   |
| <b>Benchmark:</b>        | Russell 2500 Growth   |
| <b>Strategy Assets:</b>  | \$272 million <sup>2</sup>  |
| <b>Avg. Composition:</b> | 50-70 stocks  |
| <b>Management:</b>       | <p><b>Lou Holtz, CFA</b><br/>31 yrs industry experience</p> <p><b>Yossi Lipsker, CFA</b><br/>28 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 December 31, 2022  
Calculated in U.S. Dollars

|                                       | 4Q22  | 1 Year  | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception<br>January 1, 2016 |
|---------------------------------------|-------|---------|---------|---------|---------|----------|------------------------------------|
| <b>SMID Cap Opportunities [Gross]</b> | 5.65% | -22.73% | 2.98%   | 3.66%   | -       | -        | 7.88%                              |
| <b>SMID Cap Opportunities [Net]</b>   | 5.52% | -23.08% | 2.55%   | 3.18%   | -       | -        | 7.40%                              |
| Russell 2500 Growth Index             | 4.72% | -26.21% | 2.88%   | 5.97%   | -       | -        | 8.98%                              |

Past performance does not guarantee future results. Performance is preliminary and subject to change. 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 advisory-only assets. Advisory-only assets are client assets for which RHJ provides investment management services; they are non-managed assets.



### FIRM HIGHLIGHTS

December 31, 2022

Research-driven firm founded in 1974

Firm AUM + AUA: \$2.1 billion<sup>1</sup>

#### Ownership

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

#### Personnel

- 27 employees, including 12 owners averaging 30 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 December 31, 2022

|  | RHJ SMID Cap Opportunities | Russell 2500 Growth Index |
|--|----------------------------|---------------------------|
| Number of Holdings                         | 64                         | 1,340                     |
| Portfolio Turnover (3 year annual average) | 18.3%                      | -                         |
| Long-Term Earnings Growth Forecast         | 11.7%                      | 16.3%                     |
| P/E - 1 Year Forecast <sup>1</sup>         | 15.6                       | 15.5                      |
| Weighted Median Market Cap (billion)       | \$4.68                     | \$4.50                    |
| Weighted Average Market Cap (billion)      | \$7.20                     | \$5.76                    |
| Standard Deviation (5 years)               | 23.0                       | 23.2                      |
| Active Share                               | 94.8%                      | -                         |

Sources: FactSet & eVestment Analytics

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

### PORTFOLIO SECTOR WEIGHTING

| As of December 31, 2022 | Industrials | Financials | Consumer Staples | Comm. Services | Consumer Disc. | Energy | Utilities | Materials | Real Estate | Info. Tech. | Health Care | Cash |
|-------------------------|-------------|------------|------------------|----------------|----------------|--------|-----------|-----------|-------------|-------------|-------------|------|
| SMID Cap Opportunities  | 9.0%        | 5.1%       | 1.7%             | 9.6%           | 16.1%          | 0.0%   | 0.0%      | 2.0%      | 0.0%        | 27.9%       | 26.1%       | 2.6% |
| Russell 2500 Growth     | 18.6%       | 6.9%       | 4.0%             | 1.8%           | 12.2%          | 6.2%   | 1.3%      | 5.2%      | 2.6%        | 22.0%       | 19.4%       | 0.0% |
| Active Weights          | -9.6%       | -1.8%      | -2.3%            | 7.8%           | 3.9%           | -6.2%  | -1.3%     | -3.2%     | -2.6%       | 5.9%        | 6.7%        | 2.6% |

Sector Weightings Sources: FactSet & GICS Sector Classification

Portfolio characteristics and sector weightings are subject to change at any time and are based on a model portfolio. Portfolio characteristics and sector weightings of individual client portfolios in the strategy may differ from those shown above. Sector weightings may not add up to 100% due to rounding. Please see important disclosure information at the end of these materials regarding the indices and sector classification shown above.

<sup>1</sup>Asset include assets under management and advisory-only assets. Advisory-only assets are client assets for which RHJ provides investment management services; they are non-managed assets.



## 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. 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. The RHJ SMID Cap Opportunities Composite contains all fully discretionary, taxable and tax-exempt, institutional, and high net worth portfolios invested in SMID cap companies that have three primary characteristics: high earnings growth, high or improving return-on-invested capital, and sustainable competitive advantages. A GPS Report is available upon request at the following address: 600 West Broadway, Suite 1000, San Diego, California 92101.*

**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. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. An investor cannot invest directly in an index. This is an actively managed strategy that does not invest in all of the securities of an index, and will have some associated concentration risk. 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 the following for a description of each index used in this material.*

*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. GICS® is used for all portfolio characteristics involving sector and industry data such as benchmark, active and relative weights, and attribution. 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.*

**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.*

**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.*

**Return on Invested Capital** - *Return on invested capital (ROIC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.*

Glossary Sources: FactSet & eVestment Analytics