

**Ben Graham Centre
Value Investing Conference
2018**

THE CASE FOR SMALL AND MICRO CAPS

Leveraging Active Investing

Value Investing

Graham & Greenwald

- Fundamental analysis is key: low P/E and P/B ratios
- Actively seeks undervalued stocks, trading for less than their intrinsic value

Malkiel & Fama

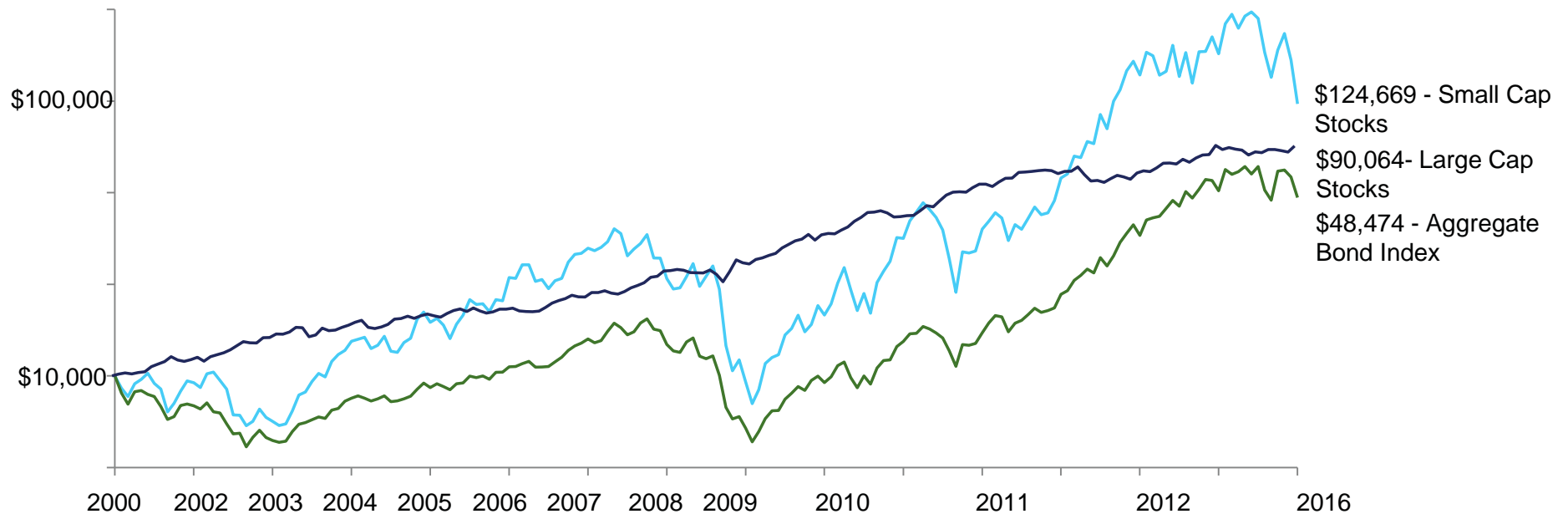
- Stock markets are efficient: market prices reflect the sum of all information
- Impossible to outperform market through stock selection and market timing

Modern Portfolio Theory & Efficient Market Hypothesis

Benjamin Graham is regarded by many to be the father of value investing. Value investing was established by Benjamin Graham and David Dodd in 1934, both professors at Columbia Business School and teachers of many famous investors. Bruce Greenwald is one of the leading authorities on value investing. Bruce C. N. Greenwald is a Robert Heilbrunn Professor of Finance and Asset Management at Columbia University.

THE CASE FOR SMALL AND MICRO CAPS

Long-Term Outperformance

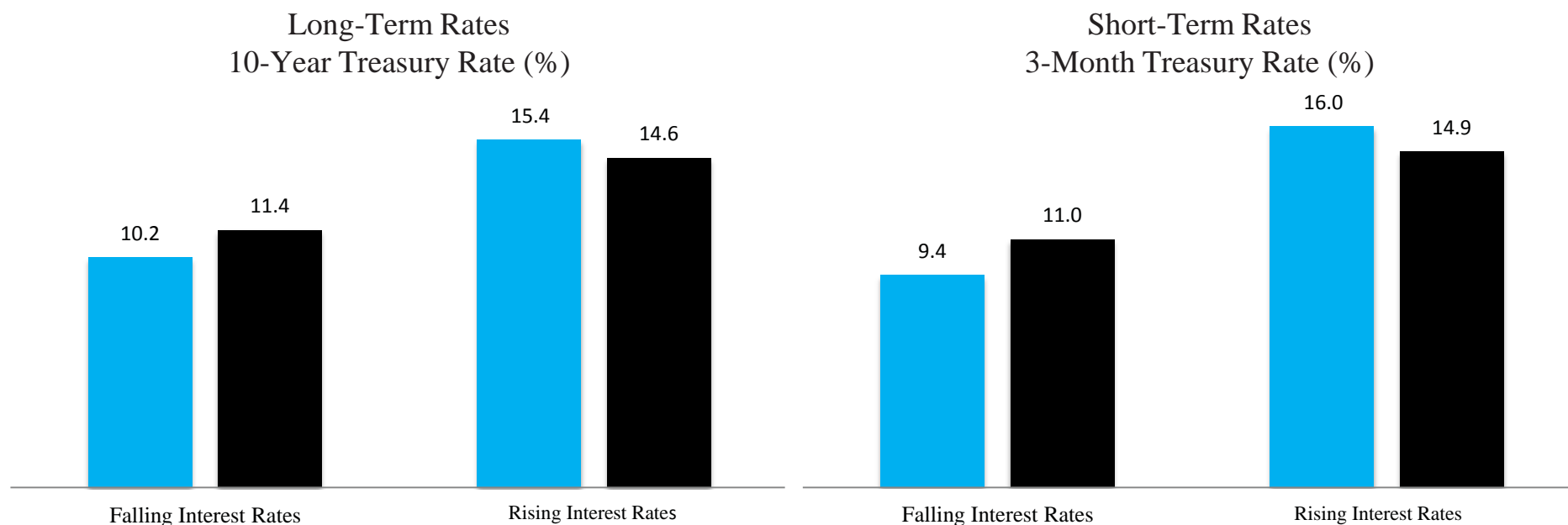


- **Small-caps outperform over a full market cycle:** Over a 15 year period, as illustrated above, a \$10,000 investment in small cap company stocks would have grown to \$124,669 compared to \$90,064 for large company stocks

THE CASE FOR SMALL AND MICRO CAPS

Small Caps During Rising Interest Rates

Average Annual Performance of Small-Caps and Large-Caps When Treasuries Rates are Rising and Falling¹
Since the inception of the Russell 2000 in 1979 through 2012



- **Historically, small-caps tend to perform better in a rising rate environment than during a period of falling rates, perhaps attributable to improving economic activity, a harbinger of stronger earnings.**

¹Source: Munder Capital Management *"The Small-Cap Investing Environment"*

THE CASE FOR SMALL AND MICRO CAPS

Merger and Acquisition activity benefits small/micro caps

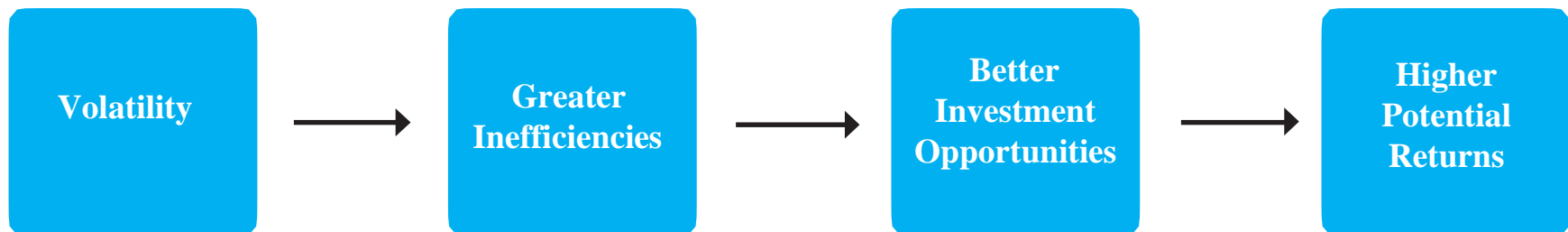
- **Activity:** M&A transactions targeting small- and micro-cap companies continue at a robust pace, with U.S. M&A volume reaching a record \$2.3 trillion in 2016, up 35% from the prior year¹
- **Activists:** Following a period of non-uniform equity performance, activist investors are prodding company managements to unlock value, often through a sale of the company
- **Attractive:** In a lower than historical growth environment, large-cap companies seek inorganic growth through the acquisition of smaller companies

¹Source: Factset.

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Increased Market Volatility Equals Greater Opportunity

- The ascendancy of hedge funds & high frequency trading firms have changed the investment environment, introducing volatility and shorter investment horizons



- Average turnover for funds:

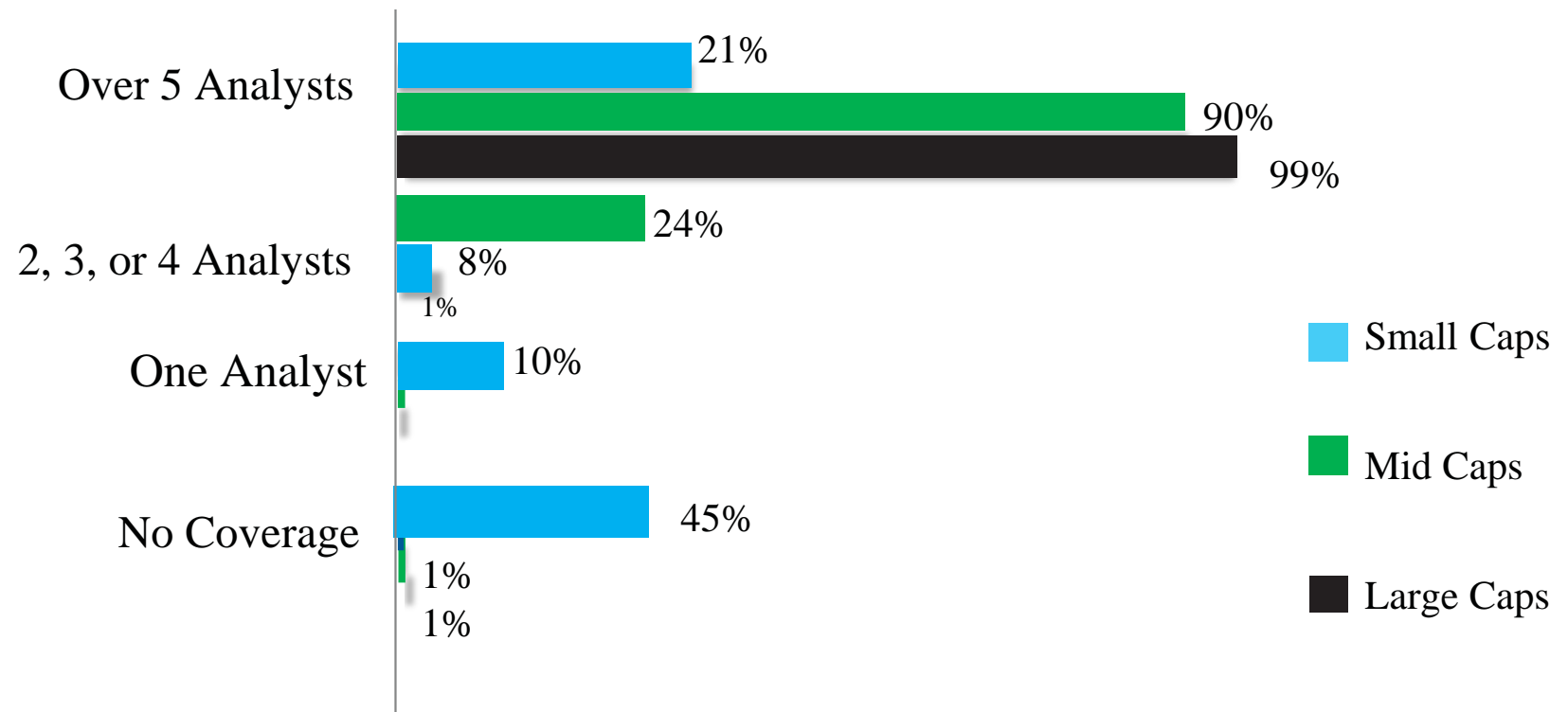
1986: 30%

2016: 44%

THE CASE FOR SMALL AND MICRO CAPS

Inefficiencies in Under-Researched Companies

Breakdown of Analyst Coverage by Market Cap¹



Opportunities in small caps:

Growth in ETFs reduces institutional analyst coverage

High research requirements and fewer providers

Fundamental research uncovers undervalued/mispriced stocks

¹Source: FactSet, February 2018

Building From The Ground Up

Information sources

Identifying ideas

Fundamental Foundation

What is it?

What is it Worth?

Management is Critical

Judge Management Firsthand

Ask Distinctive Questions

Do We Want to be their Partner ?

What Is Your Edge?

PERFORMANCE HISTORY

Net Returns	Foundation Client	Endowment client	HNW client		Russell 2000
1QTR	3.2%	3.2%	3.2%		-4%
2017	21.2%	20.5%	21.5%		14.6
2016	26.2%	29.1%	33.9%		21.6%
2015	(10.2%)	(6.3%)	(6.9%)		(4.4%)
2014	8.7%	11.4%	9.4%		4.9%
2013	39.2%	30.8%	38.9%		38.8%
2012	19.8%	16.4%	16.2%		16.6%
2011	(8.1%)	(9.6%)	15.7% (partial)		(4.2%)
2010	19.6%	15.5%	N/A		21.0%
3 Year CAGR	12.5%	13.1%	14.8%		9.9%
5 Year CAGR	15.9%	16.0%	18.1%		14.1%

Valuation Challenge

Q & A



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PARTNERS