RICE HALL JAMES
& ASSOCIATES, LLC

Market Review
Second Quarter 2022

The stock market sell-off was unrelenting in the second quarter of 2022.

During the period, large- and small-cap issues uniformly declined as investors lost confidence in the Federal Reserve's ability to walk the tightrope between inflation and recession.

In April, the Nasdaq Composite registered its worst monthly performance since October 2008. By mid-May, the Dow Jones Industrial Average finished lower for eight consecutive weeks – something that has not happened since 1929. The subsequent bounce was also short-lived, cut-off by a hot May inflation report that spurred a final -10.56% two-week free fall in the S&P 500.

When all was said and done, the S&P 500 and the Russell 2000 retrenched -16.10% and -17.20%, respectively, thrusting both indices into bear market territory. It also concluded the worst first-half return for the large-cap benchmark since 1970.

Although it wasn't hard to find reason for pessimism, the seminal event in the quarter was the May CPI report, which registered the largest annual increase in 40 years. The development prompted the Federal Reserve to increase the federal funds rate by 0.75% to 1.50-1.75%, which was larger than the previously communicated plan to tighten in 50 basis point increments. It also marked the largest interest rate increase since 1994.

The aggressive move roiled already unsettled markets for two reasons.

First, the (extreme) increase pushed the delicate balance between inflation and recession firmly towards recession. This was quickly borne out in economic reports and leading indicators. ISM New Orders fell into contraction in June. The Citigroup Economic Surprise Index ended the quarter deep in negative territory. After surging to decade highs, the 10-Year U.S. Treasury bond yield also retrenched 50 basis points in less than three weeks. Lastly, the price of copper sunk 20.2% in the quarter, with much of the decline coinciding with the Federal Reserve decision.

Second, it was also unclear if the more aggressive tact was necessary. While it was important for the central bank to demonstrate its resolve in fighting inflation, most of the aforementioned trends – declining indicators and asset prices – had begun earlier in the quarter. With so much of the strain rooted in supply-side shocks to food and energy, it is questionable if this "higher, faster" interest rate policy is an effective remedy for the fundamental drivers of the higher prices.

At this point, the primary focus for investors is whether or not the Federal Reserve can engineer a soft landing. But, with stocks off drastically, and the Federal Reserve Bank of Atlanta's GDPNow tracker estimating a second straight quarter of negative GDP growth, it feels like a moot debate.

Instead, two more interesting questions are: 1) Can the market rebound when it seems like Wall Street earnings estimates still have to come down (analysts are currently projecting +10.2% and +9.4% S&P 500 EPS growth in 2022 and 2023)? 2) Does the current tightening cycle have to conclude for stocks to put in THE bottom?

Although it is impossible to know the answer, we believe both issues will begin to resolve faster than many pundits expect. In the past month alone, cautionary comments and reports from JP Morgan, Tesla, Target, and Intel, among others, have led to a swath of industry-wide downgrades, which is sure to continue in the upcoming earnings season. Furthermore, the advantage of front-loading the tightening cycle is that it has the potential to accelerate the timeline to "peak inflation" and "peak interest rates". The hope, of course, is that the combination of (i) more realistic expectations and (ii) more predictable business conditions will transition the market to a more constructive investment phase.

What is more encouraging to us, however, is the large number of high-quality small businesses that now meet the parameters of our stringent earnings-focused, valuation-sensitive growth investment process. As a result of the pullback, we are consistently finding and vetting exciting potential investments in companies where earnings can grow and valuation multiples can expand. This is a huge departure from the not-too-distant past; it wasn't long ago that profitability (and valuation) was an afterthought for many small cap management teams and investors.

RICE HALL JAMES

& ASSOCIATES, LLC

Sources: *FactSet, GICS Sector Classification, U.S. Bureau of Labor Statistics, Forbes*

This commentary represents the portfolio managers' opinions as of the date of this presentation, and may change based on market and other conditions. This commentary is provided for informational purposes only and is not intended to forecast future events, guarantee future results, serve as investment advice, or serve as a recommendation to buy or sell any types of securities. Rice Hall James obtained some of the information provided herein from third party sources believed to be reliable but such is not guaranteed. There is a risk of loss from an investment in securities, including the risk of loss of principal. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts and the information contained in these materials should not solely be relied upon when making any investment decision.

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 Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

The 10 Year Treasury Rate is the yield received for investing in a U.S. government issued treasury security that has a maturity of 10 years.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

The Dow Jones Industrial Average (DJIA), is a stock market index that tracks 30 large, publicly-owned blue-chip companies trading on the New York Stock Exchange and Nasdaq.

The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. S&P 500 is part of a series of S&P U.S. indices that can be used as building blocks for portfolio construction.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The ISM Manufacturing Index is a composite index that gives equal weighting to new orders, production, employment, supplier deliveries, and inventories. Each factor is seasonally adjusted.

The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance [been] beating consensus. The indices are calculated daily in a rolling three-month window. The weights of economic indicators are derived from relative high-frequency spot FX impacts of 1 standard deviation data surprises. The indices also employ a time decay function to replicate the limited memory of markets.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by Rice Hall James & Associates, LLC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or 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 and 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 the GICS or any GICS classification 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.

Index Definition Sources: *Standard & Poor's, FTSE Russell, Nasdaq, Investopedia, Bloomberg*

Investment Statistic Definition Sources: *Investopedia*

Mutual fund investing involves risk including the possible loss of principal. There are specific risks inherent in small cap investing, such as greater share volatility as compared to other funds that invest in stocks of companies with larger and potentially more stable market capitalizations. Products of technology and biotech companies may be subject to severe competition and rapid obsolescence.

To determine if a Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's full and summary prospectuses, which may be obtained on the website at www.rhjfunds.com or by calling 1-866-474-5669. Please read it carefully before investing.

Rice Hall James Funds are distributed by SEI Investments Distribution Co., 1 Freedom Valley Dr., Oaks, PA 19456, which is not affiliated with the advisor.