



Palouse Capital Management, Inc.

Small/Mid Value

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PORTFOLIO OBJECTIVE

The Small/Mid Cap Value (“SMV”) Strategy seeks long term capital appreciation using PCM’s fundamental value approach to security selection. The SMV strategy is invested primarily in equities with market capitalizations below \$5 billion.

INVESTMENT PHILOSOPHY

We believe that every security has a fundamentally determined long-term value that can differ materially from its current market price. We contend that prices and valuations of securities tend to converge over time, perhaps due to the activities of value investors in the equity market. We strive to acquire shares that are temporarily undervalued with an eye to sell them when their market prices converge with fair long term valuations over time.

PORTFOLIO CHARACTERISTICS

Number of Holdings	45-50
Security Weighting	2%-4%
Sector Weighting	0%-25%
Market Capitalization	<\$5 Billion
Typical Holding Period	12-24 mos.

STRATEGY STATISTICS

Inception Date:	9/30/2011
Minimum Investment:	\$100,000
Benchmark:	Russell 2500 Russell 2500 Value

PORTFOLIO MANAGER

Bryn Harman, CFA
Spencer Shelman, CFA

INVESTMENT PROCESS

PCM’s SMV investment process uses a bottom up approach to security selection with a secondary top down approach to sector allocation. While we consider macro-economic analysis in our sector decisions, bottom up security selection often results in portfolio sector weightings that differ materially from the strategy’s benchmark.

We begin the bottom-up process by screening the domestic universe of common equities within the strategy’s market capitalization range. While screening criteria are tailored to each industry group, our preliminary analysis generally focuses on earnings power, price multiples and balance sheet metrics. We analyze all candidate companies relative to their industry groups, market sectors, and the large cap equity universe as a whole.

We then analyze the candidate company by performing fundamental analysis. We analyze each candidate’s ten year financial history paying close attention to trends in revenue, margins, earnings per share, cash flow per share, book value per share, tangible book value per share and capital structure. We also pay close attention to the sensitivity of the candidate’s business to macroeconomic and industry specific factors over time.

Once company analysis is complete, we assign a target price range for the stock using one or more appropriate valuation methods. We generally arrive at target prices using forecasted earnings or cash flows and a target multiplier that incorporates our assessment of the company’s earnings growth potential and risk profile. If we believe that there is significant upside potential to a stock’s target price range, we then consider it for inclusion in client portfolios.

Once a security has been selected for inclusion in SMV portfolios we update our target prices at least quarterly. We generally sell securities when they reach our target price. We may also sell a security if a negative event changes the fundamentals of the company or if the original thesis for buying the stock has changed or no longer applies.

For more information please contact Bryn Harman at (509) 220-4253 or bharman@palousecap.com
www.palousecap.com

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PORTFOLIO MANAGER

BRYN HARMAN, CFA

CHIEF INVESTMENT OFFICER & CHIEF EXECUTIVE OFFICER

Bryn Harman, CFA, is the firm's Chief Investment Officer. He provides leadership to the firm's investment processes and specializes in equity research. Bryn's career with equities started in the early 1990's in the Western Canadian corporate finance industry. Since that time Bryn has served as a corporate finance consultant, stock exchange Listings Officer, Senior Equity Analyst, Director of Research, public company Chief Financial Officer, Public company Director, Portfolio Manager and Chief Investment Officer. Bryn has focused on equity research for most of his career and he takes pride in applying a rigorous bottom-up analytical approach to evaluating investment opportunities. Bryn is a CFA charterholder and holds a Bachelor of Commerce degree from the University of Saskatchewan.

Spencer Shelman, CFA

Portfolio Manager

Mr. Shelman joined Palouse as a Portfolio Manager in mid-2015. Spencer's background includes more than nine years of buy-side analytical and portfolio management experience. Virtually all of his experience has involved bottom-up fundamental research for individual and institutional equity portfolios. Spencer is a Chartered Financial Analyst and graduated cum laude from Washington State University in 2006, where he was named the Outstanding Student in Finance his senior year. He was a 4-year member of the WSU football team that went to the Rose Bowl and the Holiday bowl during his time on the team. Spencer is currently serving as Vice President of the CFA Society of Spokane and is a member of the CFA Institute.

The information provided in this document should not be considered a recommendation to purchase or sell a security or securities in a particular asset class, industry, or sector. The investment strategy selected by the client provides Palouse Capital Management, Inc. (PCM) with a general guideline for investment; PCM cannot assure any client that PCM will achieve the selected investment objective or have the same or similar characteristics as those presented. Accounts are managed in accordance with the investment objectives, guidelines, and restrictions established by each client, therefore portfolios within the same investment objective may differ as to securities held and performance achieved. Historically, smaller capitalization securities have experienced greater volatility and may be less liquid than larger capitalization securities. This information is not intended to be used as the primary basis of investment decisions nor should it be construed as advice designed to meet the particular investment needs of any specific investor. Additional information regarding the services provided by PCM is available in Form ADV Part 2, which is available upon request.

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