

PALOUSE CAPITAL MANAGEMENT, INC.

Small/Mid Value Strategy

Portfolio Objective

Palouse Capital Management's Small/Mid Value ("SMID") strategy seeks long-term capital appreciation using our fundamental value approach to stock selection.

Portfolio Description

The investable universe for PCM's SMID strategy is the small to mid cap portion of the domestic equity market, which we currently define as equities in the market cap range of \$150 million to \$10 billion. This market cap range corresponds to 2,304 of the 2,454 stocks in the Russell 2500 Value® Index (as of May 22, 2018). We further narrow our scope to exclude companies with what we consider to be risky balance sheets and high trading multiples.

All SMID investment decisions are based on our internal valuation estimates and assessment of risk for all securities in the SMID model. While our SMID strategy seeks exposure to most market sectors, our sector weights do not closely track the sector weights of the Russell 2500 index. We also avoid certain industries, such as the drug research and development industry, as a risk control measure. We favor companies with good earnings visibility and we avoid stocks with a tendency to move sharply on earnings reports.

Portfolio Characteristics

Number of Holdings	45-50
Security Weighting	1.5% to 3%
Sector Weighting	0%-25%
Market Capitalization	Small-Mid Cap
Typical Holding Period	12-24 months

Strategy Statistics

Inception Date:	11/1/2011
Minimum Investment:	\$100,000
Benchmark:	Russell 2500®, Russell 2500® Value

Portfolio Manager

Bryn Harman, CFA is the portfolio manager and analyst for our SMID strategy. Mr. Harman started the SMID strategy in 2011 and has managed it since then.

Mr. Harman started his career in 1994. Bryn was previously the Director of Research for a value-oriented buy side firm with over \$2 billion in AUM at that time. Mr. Harman has also been a sell side analyst, public company executive, stock exchange Listings Officer and corporate finance consultant. Mr. Harman has seen the realm of public equities from several perspectives.

Bryn is PCM's Chief Executive Officer and Chief Investment Officer. He also owns 50% of the Firm. Mr. Harman is a Chartered Financial Analyst charter holder and is a member of the CFA Institute. Bryn received his Bachelor of Commerce in Finance from the University of Saskatchewan in 1992.

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Investment Philosophy and Buy Discipline

We believe that every equity security has an intrinsic value that reflects the issuer's present and expected business fundamentals – earnings, cash flows and financial position. We think of intrinsic value as the fundamental value that the relevant investor audience is likely to assign to an equity in the future, which might be different from our own opinion. It is better to understand how the market values an investment than to understand how we might want to value it.

Security prices often diverge materially from intrinsic value. We believe that buying equities at prices that are below our estimates of intrinsic values will result in security-level alpha because prices tend to converge with intrinsic values over time. In order to gain an understanding of an equity's value in the present, one must first understand the business and financial metrics of the issuer in the past - and we must try to understand how these metrics might change in the future. We use business analysis, financial analysis and financial modeling to help assess each investment considered for purchase in our strategies.

Valuation of securities is an elusive concept and the valuation process can be very subjective. Opinions of value can differ dramatically from one investor to another, which is vital to a well-functioning market. We believe that by applying analytical techniques consistently to industries and companies we develop appropriate valuation constructs that can be used to measure value relative to historical norms and industry standards. The idea is to do a lot of analysis on companies and industries in the relevant universe to gain a solid relative value perspective. We have done analysis and research projects on well over one thousand companies in the SMID universe in the past six years.

Research Process

Our research process begins with screening, which focuses on balance sheet metrics, profitability history, trading multiples, visibility and overall business and industry risk. We favor low trading multiples and good balance sheets. Once a security has passed through our screens we focus on business analysis to understand what has driven financial performance in the past and what is likely to drive financial performance in the future. We employ analytical and modeling techniques to project financial metrics – always focusing on the reasonableness of assumptions and guidance – to arrive at our initial 12 and 18 month target prices. If we believe that there is sufficient upside to the stock and that the investment meets our preferred risk profile, we take an initial position. Our tracking research then involves daily portfolio monitoring and quarterly (at least) financial model and valuation updates. Sell decisions are based on our ongoing assessment of value and risk.

Important Disclosures:

*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.

The Russell 3000® Index is a float-adjusted, market capitalization weighted index comprised of equities of the 3000 largest domestic companies. The Russell 2500® index is a subset of the Russell 3000 index comprised of the 2500 smallest cap equities in the Russell 3000 and represents the SMID segment of the domestic equity market. The Russell® 2000 Index is a subset of the Russell 3000 index comprised of the 2000 smallest cap equities in the Russell 3000 index and represents the small cap segment of the domestic equity market.