

**FIRM BROCHURE**  
(Part 2A of Form ADV)

**March 28, 2014**



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Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Rice Hall James & Associates, LLC. If you have any questions about the contents of this Brochure, please contact us at (619) 239-9005 and/or [www.ricehalljames.com](http://www.ricehalljames.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Rice Hall James & Associates, LLC is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Rice Hall James & Associates, LLC and its registered representatives is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2: MATERIAL CHANGES

Rice Hall James & Associates, LLC (“Rice Hall James”) has made updates to its ADV Part 2A in accordance with annual requirements. Changes were made as follows:

Item 4 – Advisory Services - updated to reflect that as of December 31, 2013, RHJ had \$1,513,924,926 in gross discretionary assets under management. This item also was updated to reflect that Rice Hall James serves as a sub-adviser to the Dreyfus Select Managers mutual fund and to reflect that we have a branch office in Pasadena, California.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss – updated to reflect the change to the market capitalization ranges for the Mid Cap Equity, Small Cap Equity, and Micro Cap Equity Strategies. This item also was updated to reflect that the risks pertaining to the mutual funds managed by Rice Hall James are outlined in their respective prospectus.

Item 12 – Brokerage Practices – updated the list of research products obtained by the firm under our current soft dollar arrangement.

Rice Hall James’ previously updated ADV Part 2A is dated March 28, 2013.

Pursuant to SEC Rules, Rice Hall James will ensure that clients receive a summary of any materials changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as we experience material changes in the future, we will send you a summary of our “Material Changes”, along with an offer to provide the Brochure under separate cover. For more information about the firm, please visit [www.ricehalljames.com](http://www.ricehalljames.com).

Additional information about Rice Hall James and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## ITEM 4: ADVISORY BUSINESS

### *A. Description of Firm*

Rice Hall James & Associates, LLC ("Rice Hall James") is an SEC registered investment management firm, with its principal place of business located in San Diego, California and a branch office located in Pasadena, California. Rice Hall James was founded in 1974. Rice Hall James provides investment management services on a discretionary basis to its clients. We conduct business in a number of states (see Part 1 of our Form ADV).

Rice Hall James' principal owner is Thomas McDowell (he owns more than 25% but less than 50% of the firm). He serves as the Managing Member and the Chief Executive Officer.

Other members of senior management, who also are minority owners (each owns less than 25%) are Thao Buuhoan (Managing Member, President and Chief Operating Officer), Carl Obeck (Member and Chief Financial Officer), Timothy Todaro (Managing Member) and Cara Thome (Managing Member).

### *B. Types of Advisory Services Offered*

Rice Hall James provides its investment management services on a discretionary basis to clients directly and by participating in wrap programs. Currently, Rice Hall James does not offer or provide its services to clients on a non-discretionary basis.

Rice Hall James offers its advisory services directly to clients ("Direct Clients") and through certain wrap programs that are sponsored by multi-service financial institutions unaffiliated with us ("Wrap Clients"). We do not sponsor wrap programs.

Our Direct Clients and Wrap Clients include pension and profit sharing plans, charitable organizations, corporations and other businesses, state and municipal government entities, and high net worth individuals. Additionally, Rice Hall James serves as the investment adviser for our affiliated registered mutual funds, the RHJ Funds, and serves as a sub-adviser to the Dreyfus Select Managers Small Cap Growth Fund, which is a non affiliated registered mutual fund ("Mutual Fund Clients").

Currently we offer five core investment strategies:

- 1) Mid Cap Equity Strategy
- 2) Small Cap Equity Strategy
- 3) Micro Cap Equity Strategy
- 4) Small Cap Opportunities Strategy (formerly Small Cap Ultra Growth Equity Strategy)



5) Micro Cap Opportunities Strategy (formerly Micro Cap Ultra Growth Equity Strategy)

Please refer to **Item 8** for further information on our methods of analysis and investment strategies, including details on the specific risks associated with these strategies.

Services Provided to Direct Clients

Each Direct Client will enter into a written agreement with Rice Hall James for the management of assets.

At the beginning of the relationship, we generally meet with Direct Clients and gather information regarding a client's overall investment objectives. This will include the Direct Client's individual needs, such as risk tolerance, time horizon and any restrictions placed by the client. From there we assist the client in determining the best investment strategy or strategies that are best suited to meet the clients' needs and objectives. Once a Direct Client has selected an investment strategy or strategies, we provide continuous supervision and management of the assets. Direct Clients are responsible for informing us of any changes to their guidelines, individual needs and/or restrictions.

Services Provided to Mutual Fund Clients

For our Mutual Fund Clients, we manage the pooled assets of each in accordance with the relevant fund's investment objectives and restrictions as outlined in their offering documents (*i.e.*, prospectus). These investment objectives and restrictions cannot be changed without a shareholder vote.

Wrap Programs

Rice Hall James also offers its investment strategies through certain wrap programs (each, a "Wrap Program"), which are sponsored by multi-service financial institutions unaffiliated with us (each, a "Wrap Sponsor"). A list of such Wrap Programs may be found in Part 1 of our Form ADV.

Generally, a Wrap Client selects an investment adviser, such as Rice Hall James, from a list of Wrap Sponsor-approved advisers. The selected adviser will provide investment management services for the Wrap Client's assets allocated to the Wrap Program. For a single all inclusive fee (the "Wrap Fee"), a Wrap Client receives certain other services provided by the Wrap Sponsor, such as trading execution and custodial services. Rice Hall James receives a portion of the Wrap Fee from the Wrap Sponsor for providing investment management services to the Wrap Client. The Wrap Clients enter into a written agreement with the Wrap Sponsor and not Rice Hall James.

Although the types of investment management services we provide to Wrap Clients are generally the same as the types of investment management services provided to our Direct



Clients, certain differences may exist. These include: 1) the fact that the Wrap Sponsor collects each Wrap Client's investment objectives and assists in determining the strategy best suited for the Wrap Client, and 2) communications regarding the investment management of a Wrap Clients' assets is between the Wrap Sponsor and the Wrap Client, with Rice Hall James only communicating with the Wrap Sponsor (unless the Wrap Client requests otherwise).

#### Unified Managed ("UMA") Accounts

Rice Hall James has entered into written agreements with certain broker-dealers to provide ongoing information regarding our strategies. Commonly referred to as UMA accounts (unified managed accounts), under these arrangements we supply the broker-dealer ("UMA Sponsor") with a model portfolio for one or more of the strategies we offer. Rice Hall James does not have any relationship or agreement with the UMA clients and does not receive any specific client information from the UMA Sponsor. The UMA Sponsor retains full discretion on whether or not to invest their UMA clients' assets using model portfolios we provide. Rice Hall James does not include any UMA assets in the calculation of our AUM (assets under management), however, we are paid a flat percentage fee on these assets. Please refer to **Item 5** for information regarding fees received for UMA arrangements.

#### ***C. Assets Under Management***

As of December 31, 2013, the following represents the total amount of gross client assets under management ("AUM") by Rice Hall James on a discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$1,513,924,926

### **ITEM 5: FEES AND COMPENSATION**

#### ***A. Fees Charged to Direct Clients***

As noted above, Direct Clients enter into a written agreement with Rice Hall James. The client agreement sets forth the terms and conditions of the relationship, including the fees we charge for our services. The fees are subject to negotiation under certain circumstances and at the sole discretion of Rice Hall James.



The following fee schedules reflect our current standard fee schedule by strategy for direct clients (except for the affiliated mutual funds):

**For the Small Cap Equity Strategy and the Mid Cap Equity Strategy**

<u>Annual Rate</u>	<u>Market Value</u>
0.85%	on first \$10 million
0.70%	on the next \$15 million
0.60%	over \$25 million

*Minimum annual fee: \$42,500\**

**For the Micro Cap Equity Strategy**

Annual Rate 1.0% flat rate

*Minimum annual fee: \$50,000\**

**Small Cap Opportunities Strategy**

1.0% on first \$25 million  
0.85% over \$25 million

*Minimum annual fee: \$30,000\**

**Micro Cap Opportunities Strategy**

1.5% on first \$10 million  
1.25% over \$10 million

*Minimum annual fee: \$45,000\**

The following applies to the above fee schedules:

- The minimum fee may be reduced or waived if: 1) the client has a certain amount of assets in total managed by Rice Hall James in other related accounts, 2) the client has assured us that near-term contributions will bring the account fees to the minimum, or 3) under other conditions relating to the type of client (i.e., pooled investment vehicle, high net worth individual, institution, etc.). We also reserve the right to waive or charge a lower minimum at our discretion.
- Market value of related accounts may be combined for fee calculation.
- Fees are billed quarterly in arrears, based on the market value of account assets as of the last day of the end of each calendar quarter.
- Fees are pro-rated for mid-quarter account openings and closings.
- There is no set-up fee, pre-payment or termination fee.
- Fees may be negotiable, including annual minimums.
- There may be occasion where Rice Hall James charges a flat fee or flat percentage rate that differs from the fee schedules shown above. The amount of the fee will be determined in advance and detailed in the written client agreement. Clients who negotiate a flat fee may or may not pay a higher fee than under a tiered schedule.





- Accounts are not charged a management fee on any assets invested in an affiliated mutual fund, but the accounts will pay the advisory fee and other expenses charged by that mutual fund. Please refer to “Other Fees and Expenses” below.
- Fees received from the Wrap Sponsors for accounts obtained through Wrap Programs may vary depending on the Wrap Program and the extent of services provided by Rice Hall James. See the discussion below.

#### ***B. Fees Charged to Wrap Clients***

Rice Hall James is not generally informed of the specific fee arrangement negotiated between each Wrap Client and the Wrap Sponsor. Wrap Sponsors may charge a minimum annual Wrap Fee to each of their Wrap Clients. The annual fees we receive from each Wrap Sponsor are generally equal to either (a) a percentage of the total assets in the Wrap Sponsor’s Wrap Program accounts for which Rice Hall James provides investment management services or (b) a percentage of the Wrap Fees actually collected by the Wrap Sponsor from Wrap Clients to whom we provide investment management services. Each Wrap Sponsor generally pays us on a quarterly basis, either in arrears or in advance, as outlined in each written agreement between Rice Hall James and the Wrap Sponsor. The standard fees we receive from each Wrap Sponsor may vary depending on the investment style selected and other factors. The annual fees currently range from 0.45% - 0.75%.

#### ***C. Fees Charged to UMA Sponsors***

Rice Hall James receives an annual fee of 0.30% based on the amount of UMA assets invested in our model portfolios. The UMA Sponsor calculates and pays the fee to us quarterly in arrears.

#### ***D. Fees Charged to Mutual Fund Clients***

For each Mutual Fund Client, we receive an investment management fee based on a percentage of the assets of each Mutual Fund Client’s average daily net assets. The fee is paid monthly in arrears. The exact investment management fees are detailed in each mutual fund’s prospectus and statement of additional information.

#### ***E. Other Fees and Expenses***

Clients should understand that the fees discussed above are Rice Hall James’ fees and do not include charges imposed by third parties. For example, custodial fees, mutual fund fees and expenses, and additional fees charged by Wrap Sponsors are not included in Rice Hall James’ fees. Client assets also may be reduced by transaction fees, brokerage fees and commissions, retirement plan administration fees (if applicable), deferred sales charges on mutual funds initially deposited in the account, 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities

transactions. For mutual fund and exchange trade fund (“ETFs”) investments, clients may be charged internal management fees, distribution fees and other expenses, which are described in each funds’ prospectus.

Please refer to **Item 12** of this Brochure for additional important information about Rice Hall James’s brokerage and transactional practices.

Clients should review the fees charged to their account(s) to fully understand the total amount of all fees charged. Clients should understand that lower fees for comparable services may be available from other investment advisory or financial planning firms.

#### ***F. Important Considerations***

Clients that pay fees in advance will receive a refund of the portion of the pre-paid fees for which services have not been provided. This will be included in the client’s agreement with Rice Hall James.

Rice Hall James does not receive commissions or other compensation for the sale of securities or other investment products. However, certain employees of Rice Hall James are also registered representatives of the distributor of our affiliated mutual funds, which is a registered broker-dealer. See **Item 10** for further information

### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Rice Hall James does not charge performance-based fees (i.e., fees calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client). Consequently, we do not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as percentage of assets under management). As described above, Rice Hall James provides investment management services for a fee based upon a percentage of an account’s assets under management.

### **ITEM 7: TYPES OF CLIENTS**

#### ***A. Description of Types of Clients***

Rice Hall James provides investment management services to pension and profit sharing plans, charitable organizations, corporations and other businesses, state and municipal government entities, high net worth individuals, and affiliated registered mutual funds.



## ***B. Conditions for Managing Accounts***

Rice Hall James imposes a minimum dollar amount for the assets required to open a non-wrap program account. That minimum is \$5 million dollars for the mid cap, small cap, and micro cap equity products, and \$3 million dollars for the small cap opportunities and micro cap opportunities products. There is also a stated minimum annual fee requirement for separate non-wrap accounts under each investment strategy, which is described in **Item 5** above.

Accounts obtained through wrap programs are subject to the minimums of the particular program. Mutual fund minimum investments are outlined in each fund's prospectus.

There may be times when certain restrictions are placed by a client which prevent us from accepting or continuing to service the client's account. Rice Hall James reserves the right to not accept and/or terminate a client's account if it feels that the client imposed restrictions would limit or prevent it from meeting and/or maintaining its objectives.

For ERISA clients, Rice Hall James will provide certain required disclosures to the "responsible plan fiduciary" (as such term is defined in ERISA) in accordance with Section 408(b)(2), regarding the services we provide and the direct and indirect compensation we receive from such clients. Generally, these disclosures are contained in this Form ADV Part 2A, the client agreement and in separate ERISA disclosure documents, and are designed to enable the ERISA plan's fiduciary to: (1) determine the reasonableness of all compensation received by Rice Hall James; (2) identify any potential conflicts of interests; and (3) satisfy reporting and disclosure requirements to plan participants.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***A. Methods of Analysis***

#### *1. Mid Cap Equity Strategy, Small Cap Equity Strategy, and Micro Cap Equity Strategy*

For these strategies, Rice Hall James uses a company-specific approach that focuses on identifying stocks of growth companies that are selling at a discount to those companies' projected earnings growth rates. Rice Hall James will primarily invest in companies with price/earnings ratios that are lower than those companies' three- to five- year projected earnings growth rates, what Rice Hall James considers "Growth At Reasonable Price" or "GARP". Rice Hall James generally focuses on securities of companies with the following attributes:

- ▶ Strong management
- ▶ Growing niche market
- ▶ Potential for improvement in profit margins
- ▶ Anticipated above-average revenue and earnings growth rates



- ▶ Positive fundamental change or “Catalyst” creating inflection point in stock price

### *2. Small Cap Opportunities Strategy and Micro Cap Opportunities Strategy*

Our goal for these strategies is to take advantage of the long-term appreciation potential of smaller companies by performing disciplined fundamental research combined with the patience of longer-term holding periods. We seek to achieve above average risk-adjusted performance by selecting companies with higher estimated earnings growth rates, higher returns on invested capital, and better sustainability characteristics than that of each strategy’s benchmark. Our overall analysis includes focused research covering:

- ▶ Earnings Growth
- ▶ Return on Investment Capital
- ▶ Sustainable Competitive Advantage
- ▶ Company Valuations
- ▶ Internal Guideposts listing specific factors unique to selected companies

### *3. Types of Securities*

For investments within our offered investment strategies, Rice Hall James mainly utilizes equity securities, but we may also use corporate debt securities (bonds), municipal bonds, U.S. government securities, foreign securities, mutual funds, and exchange trade funds (ETFs) among others, if we determine such investments fit within the objectives of each strategy and are in the best interest of our clients. We generally do not utilize derivative securities, such as options or futures contracts, but may from time to time invest in warrants. In addition, Rice Hall James has current clients whose assets are managed in a balanced strategy.

## ***B. Investment Strategies***

### *1. Mid Cap Equity Strategy, Small Cap Equity Strategy, and Micro Cap Equity Strategy*

These strategies seek to uncover and capitalize on smaller, growing, undervalued companies that we believe offer higher return potential while adhering to disciplined risk controls. Ideally they are comprised of reasonably priced, less visible companies with unique business concepts or niche products that we feel are ripe for growth. The bottom-up, fundamental stock selection process singles out companies with the following market capitalizations<sup>1</sup> at the time of purchase:

The Mid Cap Equity strategy ranges between \$1.8 billion and \$21.5 billion  
The Small cap Equity strategy ranges between \$250 million and \$3.3 billion  
The Micro Cap Equity strategy ranges between \$50 million and \$750 million

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<sup>1</sup> Selection universe is tied to the capitalization range of the Russell Midcap®, Russell 2000®, and Russell Microcap® indices, respectively, each year at time of reconstitution.



## *2. Small Cap Opportunities Strategy and Micro Cap Opportunities*

The investment philosophy for our Opportunities strategies centers around three basic principles: high estimated earnings per share growth, high or improving return-on-invested capital, and strong sustainability characteristics. The Managers use fundamental analysis in researching and selecting companies for each strategy that satisfy these three tenets.

The primary objective of the Opportunities strategies is to take advantage of the long-term appreciation potential of smaller companies through disciplined fundamental research combined with the patience of longer-term holding periods. The bottom-up, fundamental stock selection process singles out companies with the following market capitalizations:

Small Cap Opportunities strategy ranges between \$100 million and \$2.5 billion

Micro Cap Opportunities strategy under \$750 million

### ***C. Material Investment Risks***

**All investing involves a risk of loss. Clients and Fund investors should be prepared to bear losses in their accounts or on their Fund investments.**

Rice Hall James' investment recommendations are subject to various market, currency, economic, political and business risks. Our investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that a client's investment objectives will be obtained. We do not guarantee or promise any level of performance.

In addition, 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 of investments is no guarantee of future results.

Some additional general investment risks a client should be aware of include, but are not limited, to the following:

- **Market Risk:** The price of a stock, bond, mutual fund or other security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances.
- **Equity Risk:** Since the strategies invest in equity securities, they are subject to the risk that stock prices may fall over short or extended periods of time. Historically, the equity markets have moved in cycles, and the value of each strategy's equity securities may fluctuate drastically from day-to-day. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments.



The prices of securities issued by such companies may suffer a decline in response. These factors contribute to price volatility, which is the principal risk of investing in the strategies we offer.

- Foreign Risk: Investments in overseas markets (international securities) pose special risks, including currency fluctuation and political risks, and such investments may be more volatile than that of a U.S. only investment. The risks are generally intensified for investments in emerging markets.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Political and Legislative Risk: Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning, with significant impact, especially for companies operating outside of the United States or those companies who conduct a substantial amount of their business outside of the United States.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Before entering into an agreement with Rice Hall James, a client should carefully consider: (1) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, usually a minimum of three to five years, (2) that volatility from investing in the stock market can occur, and (3) that over time the client's assets may fluctuate and at anytime be worth more or less than the amount invested.



Rice Hall James does not represent, guarantee or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

There may be additional risk associated with an investment in the RHJ Funds or the Dreyfus Select Managers Small Cap Growth Fund, which are outlined in the respective mutual fund's prospectus and should be read carefully by investors.

## ITEM 9: DISCIPLINARY INFORMATION

Rice Hall James and its employees have not been involved in any legal or disciplinary events that would be material to a client's evaluation of the company or its personnel.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Certain employees of Rice Hall James are also registered representatives of the distributor of our affiliated mutual funds, which is a registered non-affiliated broker-dealer. These employees may, from time to time, recommend that certain potential Rice Hall James clients consider the purchase of shares of the affiliated RHJ Funds that we advise. These recommendations are rare and are mainly to potential clients that do not meet the minimum asset requirements for a separately managed account. All such recommendations are made by the individuals in their capacity as registered representatives of the distributor/broker-dealer, and they do not receive any commissions or other fees for those recommendations or from any subsequent investment(s) made by the potential client in our affiliated mutual funds.

## ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### *A. Description of Code of Ethics*

Rice Hall James has adopted a written code of ethics that is applicable to all employees and certain of their family members. Our Code provides our employees with guidance in their ethical obligations regarding their personal securities transactions and fiduciary duties to clients. Specifically, the Code requires certain employees to report personal trades and holdings and prohibits or requires pre-clearance for certain trades in certain circumstances. The Code also contains procedures for reporting violations and enforcement. We distribute the Code to our employees annually, who review it. Our Code also sets forth specific policies and procedures for our employees to follow regarding material, non-public information ("insider information") and other confidential information of clients and the firm. The Code requires any employee receiving inside information to refrain from trading while in possession of that information and to discuss the information only with the firm's Chief Compliance Officer to determine an



appropriate course of action. A copy of the Rice Hall James Code of Ethics is available to clients (or prospective clients) upon written request to:

**RHJ Code of Ethics Request**

600 West Broadway, Suite 1000  
San Diego, CA 92101

**Or via Electronic Mail Request to the following email address:**

[info@ricehall.com](mailto:info@ricehall.com)

***B. Participation or Interest in Client Transactions***

Because the Code permits employees of Rice Hall James to invest in the same securities as our clients, there is a possibility that the employee could benefit from market activity by a client in a security held by that employee. Employee trading is continually monitored under the Code, with an eye to reasonably prevent conflicts of interest between Rice Hall James and our clients.

Rice Hall James does not effect any principal or agency cross securities transactions for client accounts. This means, we do not sell securities that we own to our clients and we do not buy securities from our clients. We also do not act as an investment adviser in a transaction in which we or our affiliate acts as a broker for both our client and for the person on the other side of the transaction.

Employees have invested and intend to continue to invest in The Rice Hall James Mutual Funds. Because the mutual funds' portfolios are managed by us and are treated as clients, employees may, on occasion, trade before some or all clients, and to that extent, employees who own shares of these mutual funds may be deemed indirectly to trade before clients, but only on a pro rata basis with all other shareholders of these mutual funds.

Rice Hall James and some of our employees may invest personally in the same securities that we purchase for clients, and may own the same securities that we later purchase for clients. Our Code contains procedures designed to address the conflicts that arise with regard to personal trading by Rice Hall James employees. For example, other than certain exceptions outlined below, when Rice Hall James is purchasing or considering for purchase any security on behalf of a client, employees may not buy or sell that security before Rice Hall James purchases it for the client or until we decide not to purchase that security. Similarly, when Rice Hall James is selling or considering the sale of any security on behalf of a client, no employee may buy or sell that security before we complete the sale for the client or until we decide not to sell that security. The purchase and sale of the following types of securities is not restricted: (i) shares of an ETF; (ii) A purchase or sale of any closed-end mutual fund; (iii) A purchase or sale of 50 bonds or less per day of any corporate bond or municipal bond (excluding new offerings); (iv) direct obligations of the Government of the United States; (v) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase





agreements; (vi) shares issued by mutual funds or money market funds; and (vii) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds. We monitor employee transactions regularly.

## ITEM 12: BROKERAGE PRACTICES

### *A. Brokerage Discretion*

Rice Hall James generally has the authority to determine, without a client's consent, the securities to be bought or sold, the amount of those securities, the broker/dealer to be used, and the commission rates paid. Please refer to **Item 16** for detailed information regarding our investment discretion and authority.

We make investment decisions on behalf of our clients in accordance with each client's investment objectives, restrictions and selected investment strategy. This may sometimes result in Rice Hall James making an investment decision for one client that differs from the investment decision made for another client. For example, a client may limit our authority in the following ways:

- 1) a client restricts or prohibits transactions in securities of a specific industry; and/or
- 2) a client directs that transactions be effected through specific brokers and dealers (Client Directed Brokerage).

For more information on directed brokerage arrangements, please refer to the section below titled "Directed Brokerage".

### *B. Selection Criteria*

#### Direct Clients (including Mutual Fund Clients)

We seek to achieve what is called "best execution" in selecting a broker or dealer for any Direct Client transaction. To achieve "best execution," we may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security and, as discussed more fully below, the nature, quantity and quality of research and brokerage services and products provided by a broker-dealer. In placing transactions, we may cause client accounts to pay commissions to broker-dealers on an agency basis or to buy or sell securities directly from or to broker-dealers acting as principals (such as market-makers for over-the-counter securities or certain bonds). Prices for the latter transactions include markups or markdowns. Rice Hall James has complete discretion in negotiating all these compensation arrangements. When placing orders for execution in client accounts, we allocate transactions to broker-dealers for execution in various markets at prices and transaction costs that, based upon

Rice Hall James's good faith judgment, we believe will be qualitatively in the best interest of clients ("best execution").

### Wrap Clients

We place transactions for Wrap Clients through the Wrap Sponsor. The main reason for this mandate is because the brokerage costs (*e.g.*, commissions etc.) for each transaction are included in the full Wrap Fee that the Wrap Client pays to the Wrap Sponsor. If Rice Hall James were to trade with a broker other than the Wrap Sponsor, the Wrap Client would incur an additional fee. Wrap Clients should be aware that this type of "directed brokerage" arrangement could result in a Wrap Client receiving terms for certain trades that are less favorable in some respects than our non-wrap clients whose trades are not executed through the Wrap Sponsor.

### ***C. Soft Dollars***

Rice Hall James may select broker/dealers that provide various services or products, beyond transaction execution, to us and/or our affiliates, and our clients. Selecting a broker/dealer in recognition of products or services provided, other than simple transactions execution is known as paying for those products and services with "soft dollars."

Because many of those services could be considered to provide some benefit to Rice Hall James in addition to our clients, and because the monies used to acquire the services will be from client assets (*e.g.*, commissions) and not paid directly by us, there is a conflict of interest that exists. In particular, Rice Hall James could receive valuable benefits by selecting a particular broker-dealer to execute client transactions and the commissions charged by that broker or dealer might not be the lowest commission we might otherwise be able to negotiate with that broker or other brokers. In addition, it could appear that we may have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage commissions with which to acquire products and services. In order to mitigate the conflict that soft dollar arrangements present, Rice Hall James intends to make decisions involving the use of soft dollars in a manner that falls within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as outlined below.

### Research and Brokerage

Rice Hall James may use clients' soft dollars to acquire a variety of "research" and "brokerage" services and products for which those clients would not otherwise be required to pay. A federal statute, Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"), recognizes the potential conflict of interest involved in this activity but provides a safe harbor for investment advisers such as Rice Hall James, from claims that the activity involves a breach of fiduciary duty to advisory clients. This safe harbor generally applies even if the brokerage commissions paid by clients are higher than the lowest available, but only so long as certain conditions are met.

First, the “research” under Section 28(e) must constitute advice, analyses or reports that express reasoning or knowledge as to the value of or investing in or trading securities or as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent that we use them for lawful and appropriate assistance in making investment decisions for our clients. Research products and services provided to Rice Hall James may include the following: research reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications (other than mass media publications); portfolio evaluation services; financial database software and services; computerized news, pricing and other products or services that may enhance our investment decision making process.

Second, the “brokerage” services and products under Section 28(e) are those used to effect portfolio transactions for clients or for functions that are incidental to effecting those transactions (such as clearance, settlement or short-term custody related to effecting, clearing or settling transactions) or otherwise required in connection with transactions. “Brokerage” services and products (beyond typical execution services) provided to Rice Hall James could include: computer systems and facilities used for such things as communicating orders and settlement related information electronically to executing brokers and prime brokers, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions.

In addition, in order to rely on the safe harbor provided under Section 28(e), investment advisers must, among other things, determine that the commissions paid are reasonable in light of the value of the “brokerage” and “research” services and products acquired. In making that determination, an adviser may consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in the investment adviser’s performance of its overall investment responsibilities to all of its clients. In other words, under Section 28(e) Rice Hall James may use soft dollars to obtain research and brokerage services and products that benefit clients other than the client whose transactions generated the soft dollars. For example, Rice Hall James may receive research that covers clients in the Small Cap Equity Strategy that was paid for with commissions generated from transactions executed for Micro Cap Equity Strategy. Rice Hall James does not attempt to match a particular client’s trade executions with broker-dealers who have provided research services which have directly benefited that client’s portfolio. Rather, we use the research services we receive for the ultimate benefit of all of its clients.

In accordance with Section 28(e), there may be times where Rice Hall James receives products or services from a broker-dealer that are considered “mixed use” products: a certain portion is not considered research or brokerage. When this happens, we will make a good faith determination of the amount that is not research or brokerage and pay for that portion with our own monies and not with client commission dollars. We only use client commissions or commission equivalents on transactions in securities as soft dollar payments; markups and markdowns on principal transactions will not be used for purchasing research or brokerage services other than execution.



To address the conflicts inherent in soft dollar arrangements, Rice Hall James monitors and reviews transaction results to evaluate the quality of execution provided by the various brokers and dealers we use, in order to determine that compensation rates are competitive and otherwise to evaluate the reasonableness of the compensation paid to those brokers and dealers in light of all the factors described above and that our clients are receiving the best overall deal considering the prevailing facts and circumstances.

Rice Hall James receives (as of March 2014) the following research products under a soft dollar arrangement with BNY ConvergeEx:

Baseline  
Bloomberg  
Econoclast  
FactSet  
Glass Lewis Proxy Research  
WONDA

The soft dollar commission payment expectation under the soft dollar arrangements is at a current ratio of 1.2:1 (i.e. 1.2 times the actual cost of the research product). Generally, the commission cost is approximately 4 cents per share for soft dollar transactions; however, we may pay more if we believe that the amount of additional commission is reasonable in relation to the value of the brokerage and research services received.

#### ***D. Initial Public Offering (IPO) Allocation Policy***

From time to time, Rice Hall James may have an opportunity to invest in shares of initial public offerings ("IPOs") for certain of our clients. Our portfolio managers determine the clients that should participate, which is mainly based on investment strategy. The opportunity to invest in IPOs, especially "hot" IPOs (ones that are particularly sought after by investors), can be limited by lack of available number of shares issued under the offering. For times that we do not receive an adequate allocation, we may not be able to distribute the IPO shares across all accounts that we have determined should receive the IPO shares, which could create a conflict of interest.

To address this conflict of interest, we have adopted written policies and procedures, which generally state that for the times we are not allocated the full amount of shares of an IPO that we requested, then the participating accounts will generally receive IPO shares on a rotating basis. This is meant to ensure that, over time, all eligible accounts have an equivalent opportunity to participate in IPOs.

Certain exceptions may apply, such as: i) any account(s) that has insufficient cash reserves to pay for the shares allocated to them; or ii) accounts that are held at a brokerage firm, such as Wrap Clients' account (unless the custodial brokerage firm is a member of the selling group underwriting the IPO and the client's individual broker is willing to allocate the shares of the IPO to the client). For these clients, the portfolio manager(s) may purchase shares in the

aftermarket (after the IPO begins trading on an exchange), which may occur at higher prices than the initial offering price, but only if the portfolio manager has determined that the purchase is appropriate for those clients and not cost prohibitive.

#### ***E. Trade Rotation Policy***

Rice Hall James has adopted a Trade Rotation Policy to provide a fair method of trade rotation in placing trades for all our clients' accounts, including our affiliated Mutual Fund Clients. To meet this objective, we follow written trade rotation procedures and utilize a trade rotation log. Clients are categorized by groups and the procedures are designed so that each group will systematically move down in the trade rotation on a per trade basis. A trade rotation log is utilized to help us with our efforts to ensure that each client (or group of clients) are treated fairly to the extent reasonable practicable.

#### ***F. Aggregation of Orders***

From time to time, Rice Hall James may determine that the purchase or sale of a particular security is appropriate for multiple advisory client accounts, based on a variety of reasons. When this happens, we may determine that it is in these clients' best interest to attempt to execute the trade orders as one or more block trades (*i.e.*, aggregate the individual trade for each account into one or more trade orders.). These circumstances may, in turn, give rise to actual or potential conflicts of interest among the accounts for whom the security purchase or sale is appropriate, and among the subset of those accounts actually participating in a block trade, especially if the block trade order results in a partial fill. In order to address these conflicts, we have adopted certain policies and procedures that we follow when aggregating trades in an effort to provide an objective and equitable method of trade allocation so that all participating clients are treated fairly. The basic objectives of these policies and procedures are as follows:

- (a) Rice Hall James will only aggregate trades when we believe that such aggregations are consistent with our duty to seek best execution for our clients;
- (b) We will strive to ensure that no account is favored over any other account;
- (c) Each account that participates in an aggregated transaction shall participate at the average of the executed share price for that security; and
- (d) All commission/transaction costs incurred in effecting the aggregated transaction are shared proportionately among all participating accounts.

The objective will always be to allocate the executions in a manner that is deemed equitable to the accounts involved.

Because of our management and affiliation with the Mutual Fund Clients, there may be circumstances in which we conclude that transactions for those clients may not or should not, under certain laws, regulations and internal policies, be combined with those of our other clients. However, that may cause the Mutual Fund Clients to obtain less advantageous execution than other accounts whose transactions are aggregated.



In addition, transactions for clients directing us to use certain broker/dealers for trading (i.e. directed brokerage) and transactions for Wrap Clients and other program clients will not be aggregated with other client accounts, but rather will be placed separately with their respective broker/dealers.

### ***G. Cross Transactions***

Rice Hall James's policy is generally to not perform internal cross trades among clients. However, certain internal cross trades may be permitted if it is determined that no participant in the cross trade is prejudiced in any way and it is in the best interest of the participating clients. Client accounts subject to Title I of ERISA will not participate in any such cross trades. Cross trades must be documented as to their purpose and rationale for all participants. Rice Hall James will follow the procedures set forth below when effecting cross trades in client accounts to address any conflicts of interest:

1. A worksheet will be prepared to compute the following:
  - Aggregate position size of security to be crossed
  - Determination of the required adjustment in each position in the affected accounts.
2. Ensure that the positions are freely tradable and there are no legal restrictions on Rice Hall James to trade securities. For example, The Employees Retirement Income and Savings Act of 1974 ("ERISA") prohibits cross trading for ERISA client accounts under most circumstances.
3. The cross transaction will take place at the then current market price, or the last reported price, or the average of the bid and ask prices, as applicable. Transaction costs should be split between the participating accounts.
4. Rice Hall James is prohibited from receiving any commission or other compensation as a result of the cross trade.

### ***H. Directed Brokerage***

In some instances, a client may instruct Rice Hall James to execute some or all securities transactions for its account with or through one or more brokers designated by the client.

In such cases, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such broker and his or her own satisfaction with such terms and conditions.

We do not assume any responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such client's account. The client must recognize that it may not obtain commission rates as low as it might otherwise obtain if we had discretion to select broker/dealers other than those chosen by the client and, as a result may not receive best execution on transactions due to the client's direction. Clients should also be aware that conflicts may arise between a client's interest in receiving best execution with respect to



transactions effected for the client's account and our interest in potentially receiving future client referrals from the broker.

Any client providing instructions to Rice Hall James regarding direction of brokerage transactions must be in writing. If the client desires Rice Hall James to cease executing transactions with or through any such broker/dealer, the client also must communicate this to us in writing.

When Rice Hall James provides advisory services under various Wrap Programs, we are usually directed in the wrap agreements to place transactions with the program sponsor or its affiliated broker-dealer for execution. In some cases, we may have discretion to select brokers for execution, but it is anticipated that most transactions for clients in these programs will be placed with the sponsor/broker because of the favorable commission schedule and the charges that would be imposed on the account for trading away from the sponsor/broker. Therefore, clients in these types of programs must be aware that Rice Hall James is generally not free to seek best execution by placing transactions with other brokers or dealers.

In evaluating a bundled fee program, the client should recognize that Rice Hall James is not negotiating brokerage commissions on behalf of the client. Further, with a bundled fee program, a client should also consider that, depending upon the level of the single fee charged under the program, the package of services provided, the amount of the portfolio activity in the account and the value of the custodial and portfolio monitoring services, the single fee may be higher or lower than the total cost of all the services the client is receiving were the client able to pay for each service separately. Please refer to **Item 5** for further information on fee arrangements.

### ITEM 13: REVIEW OF ACCOUNTS

Each client account is assigned a primary portfolio manager ("PM") and backup manager. There are between 5 to 10 Rice Hall James PMs that generally manage between 20 to 80 clients each. The specific number of accounts assigned to each manager depends upon the complexity and nature of the account as well as other responsibilities the individual has within the firm. The primary portfolio manager reviews accounts on a monthly basis at a minimum. Accounts are also reviewed when significant cash flow notifications are received. The Investment Team is responsible for the stock selections according to the investment guidelines of the chosen product in client accounts. The Team meets at least weekly and any time when a security is to be presented for addition to the clients' portfolios, has hit its upside target or experiences deteriorating fundamentals. A comprehensive review of stocks owned in portfolios is performed continually. Account administrators in the Rice Hall James operations department are responsible for trade settlement and custodian reconciliation. To settle trades, Account administrators download confirmations for review and settle trades accordingly. Account administrators review custodian statements and reconcile them to our records. The operations department has approximately 5 employees. Account administrators are assigned accounts by custodian relationship and each Account administrator maintains between 50 to 100 accounts.



A monthly Schedule of Assets is provided to direct clients for each managed account. The Schedule includes a summary of investments by security type and detail which includes purchase date, quantity, tax cost, market value, dividend rate, yield and projected income. Purchases and sales for the month are also detailed. A summary of income earned and gain/loss information is also reflected on the statement. Details regarding realized capital gains and losses are mailed at the end of each fiscal or calendar year.

For clients obtained through wrap programs, Rice Hall James may not be required to provide statements depending on the program agreement.

## ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

### *A. Economic Benefits Received*

Rice Hall James has soft dollar arrangements with various broker-dealers. Please refer to **Item 12** for detailed information regarding these arrangements.

Rice Hall James has relationships with many brokers, some of which refer clients to us. We do not directly pay fees to the referring broker for the referral and we do not direct transactions to a particular broker-dealer in return for client referrals. However, Rice Hall James may execute transactions through a broker that refers clients, which transfers an economic benefit to the broker. A potential conflict of interest exists as Rice Hall James may have an incentive to select a broker for transaction execution in light of future client referrals that Rice Hall James may expect from that broker. Rice Hall James does not include client referrals among the criteria it considers in broker selections.

If a broker refers a client, the client may instruct Rice Hall James to direct all of that client's brokerage to the referring broker. When a client directs trading, it also results in compensation to the referring broker. Rice Hall James may not be able to obtain volume discounts or best execution when a referring broker is used to execute transactions for a client. Please refer to **Item 12** for complete information on directed brokerage arrangements and the firm's trading practices.

### *B. Compensation for Client Referral*

Rice Hall James has entered into an agreement and may, in the future, enter into additional agreements ("solicitation agreements") with affiliated and unaffiliated individuals and organizations that solicit clients for us. All such individuals are registered representatives of a broker-dealer that is registered under the Securities Exchange Act of 1934 and applicable state laws. All such agreements are made in writing and comply with the requirements of Rule 206(4)-3 of the Investment Advisers Act (the "Act"). While the specific terms of each solicitation agreement may differ, generally, a solicitor's compensation is based upon our engagement of new clients and the retention of those clients and is calculated using a varying



percentage interest in the fees paid to Rice Hall James by those clients. In all solicitation agreements, each solicitor must make certain representations regarding their licensing status, ethical standards and disciplinary history. Each solicitor must agree to advise us immediately of any change in such representations. In addition, the solicitor must provide the prospective client with a copy of our “Disclosure Brochure,” which is a copy of our ADV Part 2A, in addition to a document disclosing that the solicitor is receiving some form of payment for making the referral. The solicitor or Rice Hall James will obtain the client’s signature acknowledging receipt of the Disclosure Brochure and the written document. Note that in some states, a solicitor is also required to be qualified and registered as an investment adviser representative.

## ITEM 15: CUSTODY

All assets of Rice Hall James clients (cash, securities and other assets) are held in the custody of unaffiliated broker-dealers or banks (“qualified custodians”). Rice Hall James, therefore, has no physical possession of client assets. However, Rice Hall James is deemed to have limited custody of certain client funds under federal securities laws and regulations due to the fact that it has authority to deduct fees from client accounts by providing instruction to the qualified custodian of an account to deduct fees directly from a client’s account. Rice Hall James does not have custody for any purposes or reason other than limited custody for the direct deduction of advisory fees.

Rice Hall James employs various safeguards to balance its limited “custodial” powers. For example, all Direct Clients and Wrap Client will receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. The account statement reflects all client holdings in the account, along with all transactions, additions and withdrawals (including advisory fees) that took place during the statement period. Clients are urged to carefully review all custodial statements and compare them to the account statements and reports provided by Rice Hall James. Our statements and reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please refer to **Items 10 and 12** for additional important disclosure information relating to Rice Hall James’ practices and relationships with custodians.

## ITEM 16: INVESTMENT DISCRETION

### *A. Discretionary Authority; Limitations*

Rice Hall James has full investment discretion for the management and trading of client accounts. Each client grants Rice Hall James a limited power of attorney for the management and trading of assets by entering into an investment management or similar agreement with Rice Hall James.

Clients can place reasonable restrictions on Rice Hall James' investment discretion by establishing guidelines or restrictions in the investment management or other contract between the client and Rice Hall James.

### ***B. Limited Power of Attorney***

Rice Hall James is authorized to exercise full discretionary trading authority via a limited power of attorney contained in written agreements between Rice Hall James and our Direct Clients or a Wrap Sponsor. We are designated as a client's attorney-in-fact with discretionary authority to invest and trade assets, and to give instructions to third parties accordingly.

## **ITEM 17: VOTING CLIENT SECURITIES**

### ***A. Proxy Voting Policies and Procedures***

Rice Hall James has a policy to vote all shares held on behalf of clients unless the client specifically retains the responsibility or allocates that responsibility to someone else in writing.

We have adopted Proxy Voting Policies and Procedures and utilize a third party proxy voting service to assist it in monitoring and voting client proxies. We will vote client proxies in a manner that we believe is in the economic best interest of each client, which may result in different voting of proxies for the same issuer. Rice Hall James has adopted written proxy voting guidelines that reflect how we will vote certain proxies; however, we may vote a proxy contrary to these guidelines if we determine that such action is in the best interest of one or more clients. Generally, if a conflict of interest arises, we will vote in accordance with the written guidelines of the third party proxy voting service.

A client may request a complete copy of the Rice Hall James current Proxy Voting Policies and Procedures and voting guidelines and/or information on how we have voted proxies for your account(s) by either emailing us at [info@ricehall.com](mailto:info@ricehall.com) or by submitting a written request to:

**Rice Hall James Proxy Voting Info**  
600 West Broadway, Suite 1000  
San Diego, CA 92101

### ***B. Class Action Filings***

A securities "class action" lawsuit is a civil suit brought by one or more individuals on behalf of themselves and others who have the same grievance against the issuer of a certain security. Under our standard agreement with clients, we have responsibility to file class actions on behalf of the client, unless the client retains such responsibility or allocates such responsibility to someone else in writing.



## ITEM 18: FINANCIAL INFORMATION

Rice Hall James does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. We are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients. We have not been the subject of a bankruptcy petition.