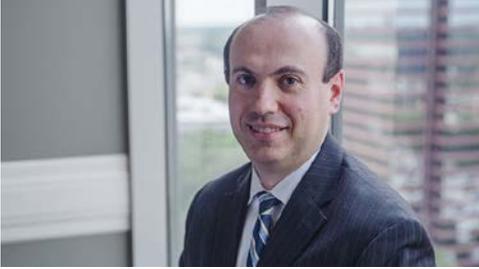


AN INTERVIEW WITH BORIS KUZMIN, CFA



DIRECTOR OF SMALL CAP EQUITY STRATEGY

SENIOR ANALYST - FINANCIALS

JOINED CRAWFORD IN 2004

Interviewer: How did you first get interested in small cap investing, and how has that developed in your time at Crawford?

Boris Kuzmin: I became interested in smaller companies early in my investing career. My interest stemmed from the fact that this is an underfollowed part of the market that offers diligent investors opportunities to earn outsized returns. At Crawford, we have historically focused on the large cap segment of the market. However, we have frequently observed that companies at the low end of our investable market cap range exhibited attractive fundamental characteristics. After doing some back-testing, and given our desire to expand our product suite over time, we identified the small cap space as a great opportunity to apply our existing investment approach and generate attractive, risk-adjusted returns for our clients.

I: Could you talk about that potential you saw and how it relates to both your investment approach as the Small Cap Strategy Director and Crawford's overall investment philosophy?

BK: Since its founding, our firm has consistently been focused on investing in what we believe to be undervalued, high-quality dividend-paying companies. While we have found that this approach works really well in large caps, particularly from a standpoint of mitigating volatility and downside risk, it works even better at the smaller end of the market spectrum. We believe that there are several factors at play here. One, there seems to be a persistent phenomenon of neglect for dividend-paying small cap companies among Wall Street firms, which limits the amount of information available to less-sophisticated investors. Additionally, the quality disparity is much wider within small caps when compared to large caps, as most investors underestimate the level of risk that they are taking on. When you couple this quality disparity with the fact that small cap companies are underfollowed, a number of inefficiencies emerge and often lead to stock mispricing.

In short, we believe our quality bias works really well in the small cap space. As I mentioned earlier, when we were in the process of developing the strategy, we went back and looked at how quality had performed historically within small caps. What we saw was this really significant benefit of being invested in higher-quality companies, both in terms of risk reduction and return advantage. This benefit was particularly pronounced when a company's dividend-paying history was used as an indicator of quality.

I: How do quality and value coexist in your portfolio?

BK: Quality and value are not mutually exclusive. Small cap stocks tend to be a lot more volatile because of both lower liquidity and the fixation on short-term results exhibited by many investors. This results in frequent mispricing opportunities where even high-quality companies can trade at sizable discounts to their intrinsic value and/or their peers. You wouldn't normally think of high-quality companies as being "cheap," but it does happen. At Crawford, our research team consists of sector experts who follow their assigned areas in great depth and can quickly spot undervalued stocks.

I: I know you like to use the phrase Quality At a Reasonable Price — QARP. Can you elaborate on this and explain its relationship to the Small Cap strategy's value tilt?

BK: In addition to buying what we believe are significantly undervalued stocks, we are willing to pay a reasonable price to purchase companies that we believe have a solid growth trajectory and are well positioned for the future. Purchases of this nature may not always fall into a traditional definition of "value," but as long as we believe that valuation is reasonable relative

to the longevity and consistency of growth prospects, we will consider buying a security, hence this QARP moniker, as compared to the more well-known GARP or Growth At a Reasonable Price.

I: Could you talk a little bit about what triggers a decision to sell a holding in the Small Cap portfolio?

BK: We do have a \$10B market cap threshold to keep our portfolio focused on smaller cap companies. Ideally, we would buy a company at or around a \$100MM market cap, let it grow to \$10B, and then either sell it or have it graduate on to our SMID Cap strategy. Additionally, we are constantly looking for new investment candidates and evaluating them against the stocks we already own. So, if we identify a better risk/reward opportunity, we will make the swap. We also monitor changes in a company's dividend policy. A dividend cut automatically triggers a review and re-underwriting of our investment thesis for that stock. In a case of complete dividend elimination, it is an automatic "sell." However, we do give ourselves a year to exit the position. This helps us avoid a "knee-jerk" reaction when virtually everyone else is also trying to exit the stock and allows us to find a better exit opportunity down the road.

I: What kind of opportunities and challenges do you see within the small cap space?

BK: In terms of opportunities, the recent outperformance of growth stocks relative to value stocks has created a tremendous disparity in valuations. We have also observed that many dividend-paying companies with strong business models have been unfairly punished by investors because these stocks are perceived to be in the "value" category. For investors like us that carry out in-depth research on each individual business that we invest in, this presents great opportunities to earn outsized returns going forward.

In general, one challenge in the small cap area is that stock performance tends to be more momentum-driven. Investors often chase smaller stocks primarily because they are going up. This dynamic leads to stock prices being detached from fundamentals and can last for some time. Thus, small cap investing requires patience and high conviction in the companies that you own.

Along the same lines, with our focus on quality and downside protection, we may not always fully participate in "hot" markets or during "risk-on" environments. There are certain groups of stocks (generally lower quality) that we believe tend to do well in these environments, so this can create temporary dislocations or periods of relative underperformance for us. It happens periodically, so we live through it and strive to rise to the challenge of sticking with our discipline and not getting caught up in what really turns out to be speculation, rather than long-term investing.

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