

# An Interview with Richard Shuster on Robeco Weiss, Peck & Greer Micro Cap Opportunities

October 2013

Few managers can claim to have a true competitive advantage; the RWPG Micro Cap team is the exception. Led by Richard Shuster and Greg Weiss, the team immerses itself in finding, analyzing, and meeting with over 600 companies each year. They cultivate these relationships with company management, often over the course of years, in order to fully understand their business strategy, the strength of leadership, and the company's products, markets and customers. Richard shares his insight below.



## Annual Returns by Decade (%)

	Micro	Small	Mid	Large
1930s	3.9	2.8	1.6	-0.3
1940s	16.5	14.5	12.6	8.7
1950s	19.3	19.1	18.4	18.2
1960s	13.6	11.4	10.3	7.3
1970s	9.3	8.7	7.9	5.1
1980s	16.9	17.4	17.5	17.2
1990s	13.8	15.5	16.1	18.8
2000s	5.6	5.1	4.7	-1.3
2010s <sup>1</sup>	12.5	15.0	13.9	10.5
<b>Median<sup>2</sup></b>	<b>13.7</b>	<b>13.0</b>	<b>11.4</b>	<b>8.0</b>

<sup>1</sup> 2010s reflects results through December 31, 2012.

<sup>2</sup> Median data does not include 2010s.

Source: Prof. Kenneth R. French, CRSP Database.

## Q: Why did you decide to focus on micro caps?

A: I started investing in micro cap equities 30 years ago, at the beginning of my career. Over this time period micro caps have consistently outperformed the broader market. Looking back as far as 1930, the annual returns by decade demonstrate clear outperformance of both small and micro cap stocks in every period except when they lagged by a small margin during the 1980s and 1990s.

Micro caps represent over 40% of listed equities, yet few of these companies are followed by analysts and the media because of the lack of broader institutional investor interest. This lack of coverage creates inefficiencies in the pricing of micro cap stocks that makes them a stock picker's dream.

## Q: What gives you an edge over other managers?

A: Our group has a few key competitive advantages that we believe allow us to outperform. The first advantage is our investment team. We have an average of 20 years of experience and have been working together as a group focused on micro caps since 1999.

This continuity gives us an immense advantage in our fundamental analysis as we have analyzed almost every type of business through economic cycles, management changes and industry shifts. We each bring different strengths to the table but follow the same methodology and research principles.

| We have an average of 20 years of experience and have been working together as a group **focused on micro caps since 1999.** |

## Annualized Investment Performance (%)

	2Q 2013	YTD 2013	1 Year	3 Year	Since Inception <sup>3</sup>
<b>Micro Cap Opportunities - Net of Fees</b>	<b>7.25</b>	<b>22.99</b>	<b>32.29</b>	<b>19.66</b>	<b>12.68</b>
Russell Microcap <sup>®</sup> Value Index	4.43	16.05	25.25	17.20	7.41
<i>Relative performance</i>	<i>2.82</i>	<i>6.94</i>	<i>7.04</i>	<i>2.46</i>	<i>5.27</i>
Russell Microcap <sup>®</sup> Index	5.10	18.32	25.38	18.26	9.19
<i>Relative performance</i>	<i>2.15</i>	<i>4.67</i>	<i>6.91</i>	<i>1.40</i>	<i>3.49</i>

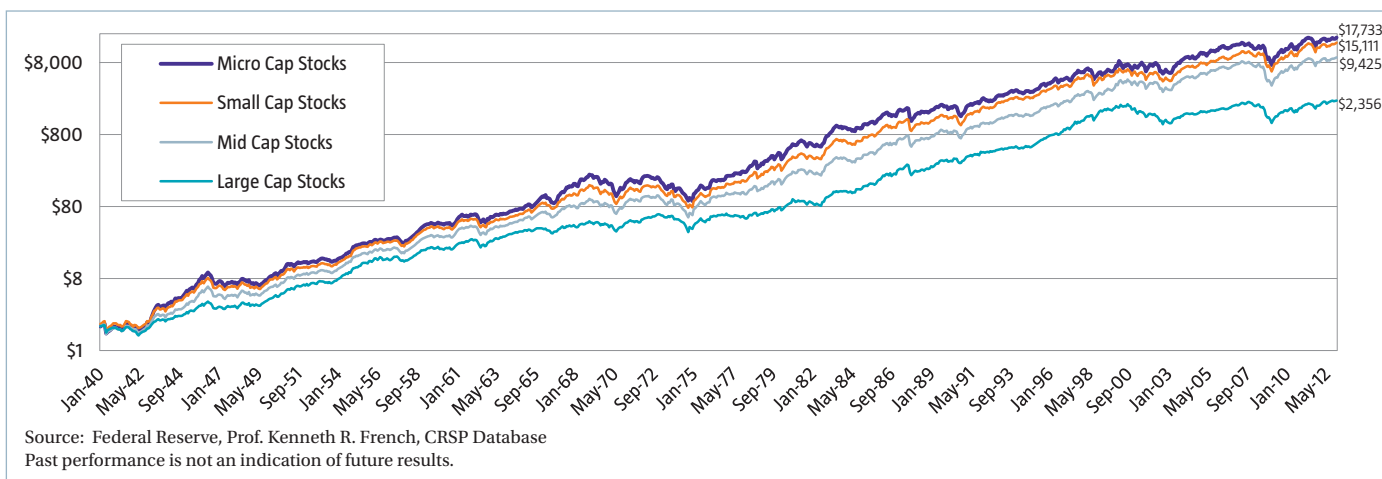
<sup>3</sup> October 1, 2008.  
Data as of June 30, 2013.  
Past performance is not an indication of future results.

The next advantage is our access to senior management teams. We often meet with a particular company for many years to gain a deep understanding of their business strategy. We visit over 600 companies a year and remain in constant dialogue with industry analysts and company stakeholders to round out our view of the business. Our long-standing reputation in the micro cap industry allows us to engage in candid two-way dialogue with stakeholders and is a key differentiator to our research process.

Our value investment philosophy is also a core competitive advantage. We have a strict price/value investment approach and build in a

margin of safety for each of our positions. Given the lack of liquidity in the micro cap universe we also have a dedicated trading team that ensures best-in-class execution for the portfolio. We believe every basis point counts and we work hard to deliver outperformance for our clients.

## Asset Class Returns<sup>4</sup>

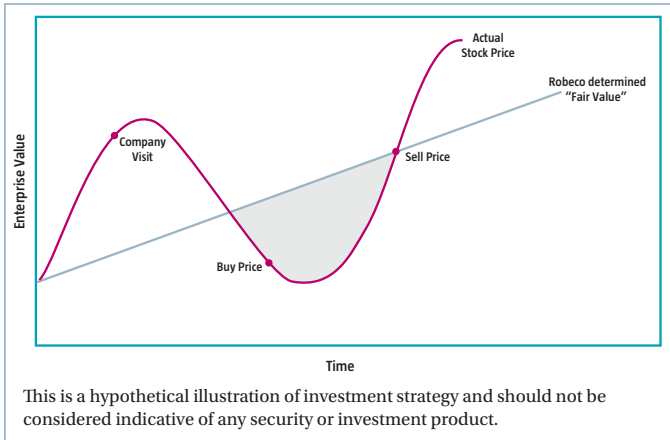


## Q: Could you describe your investment approach in more detail?

**A:** The core of our process is finding good companies at the right price with a catalyst. First, we look for returns on invested capital in excess of the cost of capital for that particular business. We then take a close look at the management track record to see where those funds have been allocated. Consistent cash flow generation is another key factor for us. We also examine balance sheet strength. In particular, we're looking for conservative leverage and favorable changes in returns on capital. Finally, we look for a specific catalyst which will result in strong pricing and higher unit volumes that is likely to generate an increase in the stock price.

The price of a security is the key factor in the final buy decision. If a company meets all of the investment criteria I just outlined, we monitor the stock until it reaches our target buying level.

## Investment Process: Buy/Sell Discipline



**Q:** You have an impressive track record. Since inception you have generated high rates of return and consistently outperformed your benchmark. How have you been able to do so?

**A:** We are fundamental stock pickers. We speak with 10-15 companies a week and look for outstanding risk/reward opportunities. Often smaller companies are eager to grow and throw away a lot of capital pursuing new projects; we look for the opposite mentality. Our focus is on a company's long term returns on capital, not short term earnings fluctuations. This methodology helps us to identify good businesses that are trading at a discount to long term intrinsic value. Additionally, many companies are cyclical in nature. We believe that buying at the bottom of the cycle, despite looking expensive on trailing valuation metrics, can often produce outsized returns.

In our universe there are a number of companies that are undervalued, but the key is being able to identify those with short term setbacks and long term positive growth prospects. The lack of analyst and media coverage that I previously mentioned allows our team to take advantage of attractive investments before the broader market understands the opportunity.

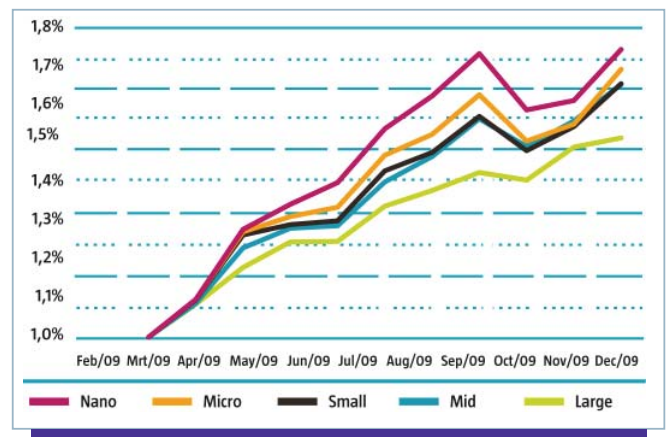
**Q:** How do you discover such attractive investment candidates?

**A:** Over the past 20 years we have met with over 4,000 companies in the micro cap universe. In addition, we actively monitor spinoffs, IPOs and M&A activity for new issue opportunities throughout the year. Typically, we identify 150–200 companies that fit our investment criteria in any given year and patiently wait for an attractive entry point. Given our long term focus we are happy to take advantage when other investors are fearful.

**Q:** Are micro cap stocks risky?

**A:** Micro caps can be vulnerable in periods of market volatility when investors experience fear and uncertainty. Our view is that these periods can produce exceptionally favorable circumstances for micro caps. One reason is that during periods of market volatility, investors run for the perceived safety of blue chip stocks, regardless of the fundamentals. We saw this phenomenon in the 2008 time frame where micro caps underperformed large caps. However in the 2009 rally, micro caps far outpaced the rest of the market. If a small company has a good balance sheet, strong cash flow, and good management, it is likely going to withstand economic headwinds and be an exceptional long-term investment. Further reducing risk, micro cap company founders typically retain a significant ownership stake that represents a large portion of their net worth. This creates an alignment of incentives where insiders and investors are motivated to create shareholder value.

Return in the 2009 market Rebound<sup>4</sup>



<sup>4</sup> Market capitalization identifications are defined as quintiles of all NYSE, AMEX, and NASDAQ stocks beginning in January 1940. Each fifth is defined as either Large, Mid, Small, Micro or Nano-capitalization. The portfolios designated by the capitalization definitions are reconstructed each year in June using the current market capitalization.

## Q: What are some of the ways you control risk?

A: From a portfolio management standpoint we have a highly diversified portfolio with about 70–100 positions and no individual position over 5%. From a company specific level, we know what we own and have an intimate knowledge of the industries in which we invest. We focus on strong balance sheets flush with cash and hard assets. We maintain constant dialogue with management teams and other stakeholders in the industry so that we can foresee negative trends that may be on the horizon. As I mentioned, having a dedicated trading team allows us to constantly analyze the market price of our securities for unusual activity and allows us to react swiftly to changes in the market price of our securities in either direction.

## Q: What triggers a sale of a holding in your portfolio?

A: We stick to our methodology. If the stock price hits our target or the fundamentals change, we sell the position. We consistently review our portfolio and challenge our top positions to ensure we have the same conviction in the risk/reward profile that we had when we first invested in the company. After investing in the micro cap universe for over 30 years I've learned not to become emotionally attached to any specific investment. The micro cap universe is truly a stock picker's paradise and there are always hidden gems to be found.

### Robeco Weiss, Peck & Greer Micro Cap Opportunities Investment Performance

#### Annualized Performance (%)

	2Q 2013	YTD 2013	1 Year	3 Year	Since Inception <sup>5</sup>
Micro Cap Opportunities - Gross of Fees	7.38	23.29	33.08	21.09	14.16
Micro Cap Opportunities - Net of Fees	7.25	22.99	32.29	19.66	12.68
Russell Microcap <sup>®</sup> Value Index	4.43	16.05	25.25	17.20	7.41
<i>Relative performance - Net of Fees</i>	<i>2.82</i>	<i>6.94</i>	<i>7.04</i>	<i>2.46</i>	<i>5.27</i>

#### Calendar Year Performance (%)

	2012	2011	2010	2009	2008 <sup>5</sup>
Micro Cap Opportunities - Gross of Fees	25.85	-8.31	32.81	42.56	-30.34
Micro Cap Opportunities - Net of Fees	24.48	-9.69	30.87	40.50	-30.64
Russell Microcap <sup>®</sup> Value Index	22.81	-10.33	28.35	17.52	-27.16
<i>Relative performance - Net of Fees</i>	<i>1.67</i>	<i>0.64</i>	<i>2.52</i>	<i>22.98</i>	<i>-3.48</i>

<sup>5</sup> October 1, 2008

Data as of June 30, 2013.

Robeco Boston Partners has prepared and presented this report in compliance with the GIPS<sup>®</sup>. Returns reflect composite results and individual portfolio results will vary. Past performance is not an indication of future results.

Robeco Investment Management, Inc. ("RIM"), an investment adviser registered with the SEC under the Investment Advisers Act of 1940. The views expressed in this commentary reflect those of RIM as of the date of this commentary. Any such views are subject to change at any time based on market and other conditions and RIM disclaims any responsibility to update such views. Past performance is not an indication of future results. Discussions of market returns and trends are not intended to be a forecast of future events or returns.

The Firm is defined as all fully discretionary fee-paying accounts under management except those invested in Funds of Funds. RIM is a subsidiary of Robeco Groep N.V. ("Robeco"), a Dutch investment management firm headquartered in Rotterdam, the Netherlands. Prior to January 1, 2007, RIM was the parent entity to three separate SEC-Registered Investment Advisers, Weiss, Peck & Greer Investments ("WPG"), Boston Partners Asset Management, LLC ("BPAM"), and Robeco-Sage Capital Management, LLC ("Sage"). These three companies were merged into RIM in order to simplify corporate structure and are considered divisions of the Firm. The merger did not affect investment activities or business functions of the divisions.

Sage, which exclusively manages funds of hedge funds, was removed from the GIPS® definition of the Firm due to differing business strategies on August 31, 2010.

RIM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. RIM has been independently verified for the periods 2007 through 2012. BPAM and WPG have been verified by an independently verifier on an annual basis from 1995 through 2006 and 1993 through 2006, respectively. The verification report(s) is/are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards.

Past performance is not indicative of future results. This document is not an offering of securities nor is it intended to provide investment advice. It is intended for information purposes only.

The inception date and creation date of the RIM Micro Cap Opportunities (formerly, RIM Micro Cap Value) composite is October 1, 2008. The investment strategy seeks to invest in microcap capitalization companies that are fundamentally undervalued and have high/and or improving return on invested capital, excellent management teams, appropriate balance sheets, strong cash flows and positive catalyst(s). The composite include all separately managed and commingled vehicles, fully discretionary, fee-paying accounts under management with a similar investment mandate and an account market value greater than \$1 million.

Account returns are market value weighted and calculated on a total return, NAV to NAV basis using trade date valuations. Returns reflect the reinvestment of dividends, interest and other earnings, and are net of commissions, and transaction costs. Performance is expressed in U.S. Dollars. Additional information regarding policies for calculating and reporting returns is available upon request.

Composite returns are provided on a gross and net of fees basis. Accounts returns will be reduced by any fees and expenses incurred in the management of the account. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Net of fees returns for commingled vehicles that are members of a composite are calculated using a model fee that is the highest tier in the separate account fee schedule for the strategy. Fees are applied to gross returns at month end.

#### Indices

The benchmark is the Russell Microcap® Value Index. The Russell Microcap® Value Index typically measures the performance of the Microcap value segment of the U.S. Equity market. It includes those Russell Microcap® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. Microcap stocks make up less than 3% of the U.S. equity market (by market cap) and consist of the smallest 1,000 securities in the small-cap Russell 2000® Index, plus the next smallest eligible securities by market cap.

The Russell Microcap Index is constructed to provide a comprehensive and unbiased barometer for the microcap segment trading on national exchanges, while excluding lesser-regulated OTC bulletin board securities and pink-sheet stocks due to their failure to meet national exchange listing requirements. The Russell Microcap is completely reconstituted annually to ensure larger stocks do not distort performance and characteristics of the true microcap opportunity set. The Index returns are provided for comparison purposes only to show how the composite's returns compare to a broad-based index of securities, as the Index does not have costs, fees, or other expenses associated with its performance. In addition, securities held in the Index may not be similar to securities held in the composite's accounts.

#### Composite Dispersion

The measurement of composite dispersion is calculated by the weighted average standard deviation of the annual account returns within the composite. Dispersion in composites with less than five accounts included for the entire year is not considered meaningful and is denoted with "n/a." The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

#### RIM Micro Cap Opportunities

	# of Portfolios in Composite	Total Assets in Composite	% of Firm AUM	Composite Dispersion
2012:	2	\$85 mm	0%	n/a
2011:	1	\$4 mm	0%	n/a
2010:	1	\$4 mm	0%	n/a
2009:	1	\$3 mm	0%	n/a
2008:	1	\$2 mm	0%	n/a

#### Other Disclosures

RIM has adjusted the S&P and Russell sector classifications to group stocks according to similar business product lines and correlation of stock returns. RIM's classifications are similar to the major market indices in terms of breadth but may differ in terms of composition. All product characteristics and sector weightings are calculated using a representative portfolio. Risk statistics are calculated using composite data. Portfolio composition is subject to change and information contained in this publication may not be representative of the current portfolio.

RIM participates in Initial Public Offerings (IPOs) as described in its Form ADV, Part II. IPO contributions to performance vary from year-to-year depending on availability and prevailing market conditions. IPO contributions may have a significant positive effect on performance when initially purchased. Such positive performance should not be expected for future performance periods. RIM's classifications are similar to the major market indices in terms of breadth but may differ in terms of composition. All product characteristics and sector weightings are calculated using a representative portfolio. Risk statistics are calculated using composite data. Portfolio composition is subject to change and information contained in this publication may not be representative of the current portfolio.

RIM participates in Initial Public Offerings (IPOs) as described in its Form ADV, Part II. IPO contributions to performance vary from year-to-year depending on availability and prevailing market conditions. IPO contributions may have a significant positive effect on performance when initially purchased. Such positive performance should not be expected for future performance periods.

#### Annual Fee Schedule

Investment advisory fees, which are more fully described in RIM's ADV, Part II, are 150 basis points ("bp") on all assets.

#### Robeco Investment Management

Robeco Boston Partners | One Beacon Street, Boston, MA 02108 tel: 617-832-8200 fax: 617-832-8135

Robeco Weiss, Peck & Greer | 909 Third Avenue, New York, New York 10022 tel: 212-908-9500 fax: 212-908-9672