

# PORTLAND BUSINESS JOURNAL

## How a Portland firm is making big gains from smaller stocks

MATTHEW KISH  
Portland Business Journal

The New York Times. CNBC. Barron's. Portland's Hood River Capital Management all of a sudden is a hot story.

The three-year-old investment firm is on a tear, thanks to an impressive track record, a big shift in how institutions invest and a steady culture built on the shoulders of three long-time friends and colleagues.

The 11-person firm, which managed roughly \$800 million in assets last year, has rocketed to \$1.1 billion and could hit \$1.2 billion soon, thanks to another deal with a Fortune 500 company.

### Small stocks, big opportunity

Hood River Capital specializes in stocks of companies with market capitalizations of less than \$3.5 billion.

"The reason we like small cap ... is we feel like it's more inefficient than other areas," said CEO and principal Brian Smoluch. "A large company like Apple might have 55 analysts who cover it. The research you get is picked over. In small cap that's not the case. Most times we're not competing with Goldman Sachs and Morgan Stanley."

There are about 2,000 companies that fit Hood River's investment criteria. It invests in around 80 after talking with around 190 companies a quarter.

"Through research we try to find names where the Street is off in their forecasts," Smoluch said. "It can come from talking to management, a supplier, a competitor or a consultant."

Smoluch and partners David Swank and Rob Marvin have done an exceptional job of finding those inefficiencies.

It operates separate accounts for some clients. It also offers a mutual fund, Hood River Small Cap Growth, which is up 102 percent over the last five years, ahead of its benchmark, the Russell 2000 Growth, which is up 76 percent.

The performance has earned the fund a 5-star rating from Morningstar, one of the industry's top seals of approval.

### Hedge funds out of favor

Hood River's investing hot streak came at the perfect time.

Institutional investors have started to flee high-cost investments like hedge funds and private equity.

"What people are realizing is the expenses are too high and it's not justified by the returns they provide," Smoluch said. "You're seeing a little bit of a shift back."



CATHY CHENEY

*Hood River Capital Management CEO Brian Smoluch said small-cap stocks are under-covered by top Wall Street stock analysts. "A large company like Apple might have 55 analysts who cover it," he said. "In small cap, that's not the case."*

Hood River also benefits because it allows investors to easily cash out. "You don't have liquidity in a lot of alternative asset classes," Smoluch said. "It takes a year or more to get money out."

Recent wins for Hood River include two more Fortune 500 companies that made it an option for pension retirement accounts. It now works with four Fortune 500 companies. A fifth could come aboard soon. Hood River's also working with the State of Minnesota.

Smoluch said the firm's ownership structure has made it an easier sell with institutional investors.

Hood River traces its history to 2002 when Smoluch, Marvin and Steve Marshman left Columbia Management, where they focused on small-cap stocks, and joined Roxbury Capital.

At the time, Roxbury was owned by Wilmington Trust. After a sale to M&T Bank in 2011, Smoluch, Marvin and Swank spun out Hood River in 2012. About two years ago they bought out M&T's remaining interest in the firm.

It's now owned equally by partners Smoluch, Marvin and Swank, who replaced Marshman when he retired in 2009.

"The structure is a lot simpler to explain in its current state," he said. "There's no bank involvement."

### Friends and business partners

Smoluch and Marvin have worked together since 1998. Smoluch and Swank lived together

### ► CLOSER LOOK

## CLOSER LOOK

**The company:** Hood River Capital Management

**The business:** Investment firm that specializes in stocks of companies with market capitalizations of less than \$3.5 billion.

**Headquarters:** Portland

**CEO:** Brian Smoluch

**Assets under management:** \$1.1 billion

**Website:** [hoodrivercapital.com](http://hoodrivercapital.com)

in college and again early in their careers in New York and Boston. They went to college together at the University of Virginia. Both graduated with honors before going off to get MBA's: Smoluch at Harvard, Swank at Dartmouth.

Smoluch called Swank the "lowest-risk hire ever."

He said one of the firm's strengths is its stability. Each principal can make investment decisions, within certain parameters.

"We trust each other."

The growth has enabled a few key hires and a blitz of publicity, partially aided by hiring a public relations firm to help tell Hood River's story.

It's been featured in Barron's, CNBC, Bloomberg and Forbes. It even appeared in a recent New York Times story about successful stock pickers.

The firm hired analyst Rohan Kumar, who holds a master's degree from Harvard and an MBA from The Wharton School, in November. It hired well-respected sales veteran Bret Hokkanen in April.

Smoluch said the firm will likely hire another analyst in the next 24 months.

With an estimated \$2 billion ceiling on strong investing opportunities in small cap stocks, Smoluch, Swank and Marvin recently pooled some money and started investing in slightly larger companies, those with a \$6 billion market capitalization.

"We think we're going to get traction (with it)," Smoluch said.

But he said it won't come at the expense of picking stocks of small companies.

"We have to maintain that mission at all cost."

***Investors should carefully consider the Hood River Small Cap Growth Fund's investment objective, risks, charges, and expenses before investing. For a prospectus, which contains this and other important information about the Fund, please call 800-497-2960 or go to [www.hoodrivercapital.com](http://www.hoodrivercapital.com). Please read the prospectus carefully before investing or sending money.***

**Investments involve risk, principal loss is possible.**

**The Fund invests in small-cap securities which present a greater risk of loss than large-cap securities, and in growth companies which can be more sensitive to the company's earnings and more volatile than the stock market in general. The Fund may also invest in foreign securities which are subject to risks including currency fluctuations, economic and political change and differing accounting standards. The Fund may invest in derivatives and IPOs, which are highly volatile. Additional risk information may be found in the prospectus.**

The Hood River Small Cap Growth Fund is distributed by Quasar Distributors, LLC. Hood River Capital is the adviser to the Fund.

Hood River Small-Cap Growth Fund (HRSMX) institutional share class performance as of 9/30/16: 1 year 15.93%, 5 years 19.63%, 10 years 8.80%. Russell 2000<sup>®</sup> Growth Index performance as of 9/30/16: 1 year 12.12%, 5 years 16.15%, 10 years 8.29%. Investors cannot invest directly in an index. Fund performance for 1 year, 5 years and 10 years is annualized. The inception date for HRSMX is 1/2/2003.

**Performance quoted represents past performance and there is no guarantee of future results. The investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than the original cost. Current performance may be higher or lower than the performance data quoted above. Please call 800-497-2960 to obtain current and the most recent month-end performance data.**

Gross Expense Ratio: 1.41%; Net Expense Ratio 1.09%. The advisor has contractually agreed to waive fees and/or reimburse expenses to limit the Total Annual Fund Operating Expense of Institutional Shares to 1.09% through December 31, 2020 otherwise performance would have been lower.

The *Russell 2000<sup>®</sup> Growth Index* is defined as an unmanaged, capitalization weighted index of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Index returns include dividends and/or interest income and do not reflect fees or expenses.

2016 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Hood River Small Cap Growth Fund (Class I) was rated against the following numbers of U.S.-domiciled small growth funds over the following time periods: 660 funds in the last three years, 596 funds in the last five years, 433 funds in the last 10 years. With respect to these Small Growth Funds, Hood River Small Cap Growth Fund received a Morningstar Rating<sup>™</sup> of 5 stars, 5 stars and 4 stars for the three-, five- and 10-year periods, respectively as of September 30, 2016. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating<sup>™</sup> based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating<sup>™</sup> for a fund is derived from a weighted average of the performance figures associated with its three-, five- and 10-year (if applicable) Morningstar Rating metrics.