

The \$30 Billion Micro-Cap Stock

Over the past couple of weeks, price gains and ballooning short interest in shares of GameStop (“GME”) have dominated the headlines of social media and the financial press. We will not delve into the mechanics of what is happening, as that has been well covered in many publications. Suffice it to say, both buyers and sellers have been relying on borrowed money to amplify their positions.

Of particular importance to us is the impact on the Russell Microcap Value® Index (“Index”) and our Micro Cap Value (“MCV”) strategy. While these events had no direct impact on our portfolio or investment process, the volatility of GME (and certain other stocks), made our January an awful month of relative performance.

A contribution analysis of the Index for January, yields the following key takeaways:

- GME accounted for an unprecedented 7.5% weighting in the Index, a peak market capitalization of nearly \$30 billion, and a mind boggling 120% short interest ratio.
- GME’s meteoric performance added nearly 715 bps to the Index.
- The total dollar volume of GME shares that traded during the last half of January was over \$100 billion, as its public float turned over 11 times.
- The largest three companies in the Index (GME, WKHS, and MAXR) had a combined weighting of 10%. It is worth noting again that based upon their fundamental characteristics we would never choose to own them at the levels they have been trading.
- Our MCV strategy, for the month of January, was up approximately 6.5% compared to the Index up just over 15%, for a negative spread of approximately 850 bps.
 - 83% of the spread can be attributed to GME alone, which we do not own.
 - That figure rises to 95% with the addition of the next two highest contributing stocks in the Index (WKHS and FCEL), which like GME are highly unprofitable companies we do not own.
- The top quintile of short interest stocks during January were up just over 50%. Even excluding GME’s impact from the attribution, the figure is still 18%.

We believe that most of the concentrated run up in these GME-type stocks will reverse themselves. If this occurs before June 30, our portfolios should have a strong tailwind in relative performance. However, if those shares maintain much of their value, they will be moved out of the Index and we will not get the relative performance benefits when they inevitably fall back to earth.

We remain confident that this current market environment is temporary. We know that valuations matter and ultimately assets are priced properly over longer periods. We continue to find the attractive values that have always served our clients well and will focus on those no matter the market gyrations that may be grabbing headlines.

Sincerely,

Pacific Ridge Capital Partners

About Pacific Ridge Capital Partners

Pacific Ridge Capital Partners is an employee-owned firm. We generate our own investment ideas using fundamental analysis and bottom-up stock picking. The investment team applies a consistent, patient and disciplined process that results in low turnover and stability. Our proven philosophy has performed well over many investment cycles and it is the consistent application of this strategy that makes Pacific Ridge unique.

The principals of Pacific Ridge Capital Partners are invested along with our clients in each of our strategies.

PRCP Small Cap Value. Our Small Cap Value strategy generally purchases stocks in the bottom three-quarters of the Russell 2000® Index. This smaller capitalization segment has a large number of underfollowed companies, providing us the greatest opportunity to exploit market inefficiencies. The typical range of holdings is between 75 and 110.

PRCP Micro Cap Value. Our Micro Cap Value strategy generally purchases stocks in the Russell Microcap® Index. This segment is widely underfollowed, providing us the greatest opportunity to exploit market inefficiencies. The typical range of holdings is between 50 and 80.

We believe these market cap segments offer great potential returns and additional diversification for our clients.

For further information about Pacific Ridge Capital Partners and our investment strategies, we invite you to contact Peter Trumbo via email at Peter.Trumbo@PacificRidgeCapital.com or by phone at (503) 886-8972.

Disclosures

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Sources: Pacific Ridge; FactSet Research Systems ("FactSet"); and Russell Investment Group ("Russell") who is the source and owner of the Russell Index data.

The current annual investment advisory fees for the portfolios managed in the Firm's Small and Micro Cap Value strategies are 1.00% and 1.50% of assets, respectively. Returns for the composites are presented gross and net of management fees and other expenses and includes realized and unrealized gains and losses, cash and cash equivalents and related interest income, and accrued based dividends. The Firm calculates time weighted rates of return by geometrically linking portfolio simple rates of return at least monthly, with adjustments made for significant external cash flows. The composite returns are calculated by asset weighting the individual portfolio returns using beginning of the period values. All returns are calculated after the deduction of the actual trading expenses incurred during the period.

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The Russell 2000® Value Index measures the performance of the Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The return for the index does not include any transaction costs, management fees or other costs.

The Russell Microcap® Value Index measures the performance of the microcap segment of the U.S. equity market. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The return for the index does not include any transaction costs, management fees or other costs.

Returns and asset values are stated in US dollars.