



## Q1 2023

### Commentary

The first quarter of 2023 can only be characterized as a “bounce-back” investment environment from the lows of 2022. All the same issues that plagued the equity and fixed income markets in 2022 have continued in 2023 with some issues getting markedly worse as is the case for regional banks and the failure of a few banks to adequately adapt to the Fed’s tightening policy, resulting in their failure. The net result of the continued malaise has been a significant precipitous drop in risk appetite by equity market investors as measured by our friends at S&P Global. <sup>1</sup>In fact, based on S&P Global’s Investment Manager Index (IMI), only March & April of 2022 produced lower readings. If there are to be any positives to be gleaned from the most recent data and information, it is that the Fed started talking about pausing their historic rate hike cycle at the March meeting. What this ultimately means is that the light at the end of the tunnel seems to be getting much closer for equity market investors seeking higher long-term returns.

### Portfolio Review

While the 1<sup>st</sup> quarter of 2023 was a positive quarter for both the Sapphire Star Small Cap Strategy and the small cap market segment in general, the returns for the quarter were dominated by the “bounce-back” in January from over sold conditions experienced in Q4 of 2022. During the quarter the Sapphire Star Small Cap Strategy performed well gaining 6.31% net while the Russell 2000 Index experienced a gain of 2.74% and the Russell 2000 Growth Index experienced a gain of 3.65%. The three sectors that aided relative portfolio performance the most during the quarter included electronic technology, retail trade, and consumer services. Industrial services, transportation, and finance were the three sectors which hindered relative performance the most during the quarter. Both stock selection and sector allocation contributed positively to relative performance for the quarter with stock selection accounting for 80% of the outperformance. From a holdings perspective Perion Network Ltd. 56.44%, Rambus 43.10%, and Lattice Semiconductor Corp. 47.19% were the three stocks that helped absolute performance the most while Tech Target Inc (10.05%), Catalyst Pharmaceuticals (10.86%), and Wintrust Financial (13.32%) detracted the most from the strategy during the quarter. Electronic technology, finance, and the energy minerals sectors were the largest weighted sectors, while utilities, process industries and distribution services were the least weighted sectors represented in the portfolio.

### Looking Forward

“Fits & starts” is how we expected the market to regain its footing in 2023, and so far, year to date, we haven’t been disappointed. We continue to believe the market will climb out of the bear market but a “V” or “U” shaped recovery in the equity markets is off the table. This recovery is going to take effort on the part of equity investors to be patient as the market slowly finds its footing amid relatively high equity

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<sup>1</sup> <https://www.spglobal.com/marketintelligence/en/>



valuations, high investor risk aversion, and increasing investment alternatives as fixed income yields have increased.

Unfortunately, the March rate hike will not be the last, however, the end of the cycle is certainly much closer. We feel that in this current environment investors must focus on a longer-term investment perspective. Historically, the end to a tightening cycle proves to be a great entry point for small cap investors, and we believe this time will be no different. We do, however, believe it will continue to be a volatile recovery as we have seen year to date. We remain focused on our fundamentally superior stocks and know that they will ride through this current volatility as they have in the past, with higher downside protection (3-Year 85.84% downside market capture) and participation in upside (3-Year 114.01% upside market capture) when positive investor interest returns.

As always, we welcome any questions or concerns that you have and thank you for your continued confidence in the Sapphire Star Small Cap Strategy.

Regards,

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