



## **Sapphire Star Capital Mid Cap Strategy Q4 2023**

### **Commentary**

The fourth quarter of 2023 was a strong period for the mid cap space as measured by the Russell Mid Cap Index, which gained 12.82%. This gain was driven by the return of risk-on sentiment in the market, as inflation eased, and the Fed signaled the end of its aggressive rate hikes. The decline in long yields over the quarter supported a broad-based rally, especially for cyclical segments of the market. However, for the full year of 2023, the Russell Mid Cap Index underperformed the Russell 1000 Index, which rose 26.53%, versus the Russell Mid Cap Index's gain of 17.23%, as large-cap growth stocks continued to dominate. The Fed's rate-setting group unanimously agreed to hold the key federal funds rate in a target range between 5.25%-5.5% in November, after raising it four times in 2023. The Fed's projections indicated that the federal funds rate would peak at 5.35% before easing in 2024. While higher rates pose a headwind for stocks and bonds, they also reflect the strength of the U.S. economy and the resilience of corporate earnings. We believe that mid cap stocks offer attractive opportunities for long-term investors, as they benefit from their exposure to domestic growth, their ability to innovate and adapt, and their potential for mergers and acquisitions. We remain focused on finding high-quality businesses with sustainable competitive advantages, strong balance sheets, and attractive valuations.

### **Portfolio Review**

The Sapphire Star Mid Cap Strategy rebounded strongly in the fourth quarter of 2023, rising by 9.84% net versus a gain of 14.55% for the Russell Mid Cap Growth Index and a gain of 12.82% for the Russell Mid Cap Index. The three sectors that aided relative performance included retail trade, consumer durable, and distribution services. The three sectors that hindered relative performance the most included technology services, finance, and producer manufacturing. From a holding's perspective, KLA Corporation +27.08% Dick's Sporting Goods Inc +36.27% and Boise Cascade Co. +31.52% contributed the most to positive total performance. Axcelis Technologies Inc. (20.46%), ON Semiconductor Corporation (10.13%) and Halliburton Company (10.33%) hindered absolute performance the most during the quarter. By the end of the quarter electronic technology, producer manufacturing, and finance remained as the three highest weighted sectors and process industries, health service and consumer durables were the three sectors with the smallest representation in the strategy.

### **Looking Forward**

As investors, it is important to remember that investing in mid cap stocks is a long-term strategy that requires patience and discipline. The mid cap market is regarded as the sweet spot of the market spectrum, providing historically less volatile return streams than the small cap market segment and has produced strong historical value over the large cap market segment and over the long term. In fact, over

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any 10-year rolling period in the past 20 years, mid cap stocks have outperformed small and large cap stocks 60% of the time.

Looking forward, we remain optimistic about the mid cap space as it offers potential for growth and diversification. We believe that our strategy of investing in high-quality companies with strong balance sheets and competitive advantages will help us navigate the market volatility and deliver superior long-term returns for our clients. We thank you for your continued trust and support.

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

Regards,

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***Important Disclosures:***

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