



Sapphire Star Capital Small Cap Strategy Q3 2024

Commentary

The small cap market demonstrated robust performance in the third quarter of 2024. The Russell 2000 index, which measures the performance of approximately 2,000 small-cap companies in the United States, posted a notable return of 9.27%. This performance underscores the resilience and growth potential within the small cap sector during this period.

Similarly, the Russell 2000 Growth index, which focuses on the growth-oriented subset of the Russell 2000, delivered an impressive return of 8.41% in the same quarter. This highlights the strength of growth-oriented small-cap companies, showcasing their ability to achieve significant gains even in a competitive market environment.

As we review the year-to-date (YTD) performance through the end of the third quarter, the small cap market continues to show remarkable strength. The Russell 2000 index achieved a cumulative return of 11.17% YTD, reflecting the overall positive sentiment and investor confidence in small-cap stocks. This performance is indicative of the economic resilience and adaptability of smaller companies in navigating the challenges and opportunities of the current market landscape.

Furthermore, the Russell 2000 Growth index outperformed its broader counterpart, with a YTD return of 13.22%. This indicates a strong preference among investors for growth-oriented small-cap companies, which are often seen as drivers of innovation and future profitability. The higher return in the Russell 2000 Growth index suggests that growth stocks have been particularly favored in the current economic climate, with investors seeking out companies with strong growth potential and solid fundamentals.

Several key drivers and trends have contributed to the impressive performance of the small cap market in 2024.

- Monetary and Fiscal Policies

Supportive monetary and fiscal policies have provided a conducive environment for small-cap stocks. Lower interest rates and government stimulus measures have increased liquidity in the market, enabling small-cap companies to access capital more easily and invest in expansion and innovation.

- Innovation and Growth

Innovation remains a central theme in the small cap sector. Many small-cap companies are at the forefront of technological advancements and disruptive business models, attracting investor interest and driving market performance. Sectors such as technology, healthcare, and clean energy have seen substantial growth, with small-cap companies leading the charge in these dynamic industries.

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Portfolio Review

- **Performance Comparison in Q3 2024:**
 - The **Sapphire Star Small Cap Strategy** trailed benchmarks, gaining 0.07% net. The underperformance was due in large part to stock selection. Specifically, previous winners such as Super Micro Computer (49.18%), e.l.f Beauty (48.26%) and Weatherford International (30.49%) hindered both absolute and relative performance. Powell Industries +55.07%, Mueller Industries +30.53% and RadNet Inc +17.77% were the bright spots in the portfolio during the quarter.

While the strategy suffered through a relatively difficult quarter, we remain committed to our investment process, which results in a portfolio of fundamentally superior companies that from time to time can perform significantly differently than the underlying small cap market. In the long run, our process has resulted in a portfolio strategy which has been able to produce strong positive relative returns. As an example, over the trailing three years our Small Cap Strategy produced a net annualized return of 1.26% versus a net annualized loss for the Russell 2000 Growth Index of -0.35%, and over a trailing ten-year period our Small Cap Strategy produced a net annualized return of 10.21% versus a net 8.95% for the Russell 2000 Growth Index.

Looking Forward

The outlook for the small cap market remains positive as we move towards the end of 2024. While challenges such as inflationary pressures and geopolitical uncertainties persist, the resilience and growth potential of small-cap companies provide a solid foundation for continued market performance.

Investors should remain vigilant and consider both the opportunities and risks associated with small-cap stocks. On one hand, the potential for higher returns and exposure to innovative sectors presents compelling investment opportunities. On the other hand, the inherent volatility and risk associated with smaller companies require careful analysis and diversification strategies.

In summary, the small cap market has shown remarkable strength in the third quarter of 2024 and year-to-date, with the Russell 2000 and Russell 2000 Growth indices delivering impressive returns. Economic recovery, innovation, supportive policies, and positive investor sentiment have all contributed to this strong performance. As we look ahead, the small cap market offers promising opportunities for investors seeking growth and diversification, while also requiring a prudent approach to managing risks.

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

Regards,

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