



Sapphire Star Capital Mid Cap Strategy Q4 2024

Commentary

As the election neared in the fourth quarter, equity markets grew increasingly volatile. However, post-election, investor confidence surged, driving the markets significantly higher before they slightly retreated by the end of the quarter and year. Key highlights include:

- **Federal Reserve Rate Cut:** In December, the Federal Reserve began a new easing cycle, cutting rates by a quarter percent during the Federal Open Market Committee meeting, bringing the target rate to 4.25% - 4.50%. This move, aimed at supporting economic growth, was well received by the markets, pushing them higher.
- **Diminishing Inflation:** Economic data showed that inflation pressures were easing, boosting investor confidence. Soft readings on employment and inflation suggested that price pressures were significantly decreasing.
- **Market Rotation:** A notable rotation in market leadership saw small-cap and value stocks outperforming the previously dominant big tech and growth stocks, contributing to the overall market rally.
- **Economic Moderation:** Despite fears of a recession due to a rise in the unemployment rate, broader trends indicated a moderating economy with healthy growth.

Portfolio Review

- **Performance Comparison in Q4 2024:**
 - The Sapphire Star Mid Cap Strategy achieved a net gain of 4.63% during the quarter. While it didn't surpass our benchmark, it demonstrated resilience and managed to outperform our benchmarks for the year gaining 28.49% net versus 22.10% for the Russell Mid Cap Growth and 15.34% for the Russell Mid Cap Index.
- **Top-Performing Sectors:**
 - Technology, Financials and Health Care performed well and aided portfolio performance during the quarter.
- **Underperforming Sectors:**
 - Industrials, consumer discretionary and materials sectors detracted from relative performance during the quarter.
- **Contributors to Absolute Performance:**
 - Palantir Technologies 103.31. %, Apollo Global Management 32.60%, and Interactive Brokers Group 26.94% drove absolute performance.
- **Detractors from Absolute Performance:**
 - Lennar Corporation (27.06%), KLA Corp (18.41%) and Boise Cascade (15.57%) detracted the most during the quarter.
- **Sector Weightings:**
 - Overweight sectors: Electronic Technology, non-energy minerals and finance.

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- Underweight sectors: communications, commercial services, and consumer non-durables.

Looking Forward

The core investment strategy is centered around identifying high-quality businesses. These are companies that not only exhibit developing competitive advantages and maintain strong balance sheets but also trade at attractive valuations. In the near future, we anticipate that economic data will indicate a decrease in inflationary pressures, bolstering investor confidence, even if this takes longer than initially expected. Although there are concerns about a potential recession due to a rising unemployment rate, we believe that the overall trend will reveal a stabilizing economy with sustained healthy growth.

For long-term investors, mid-cap stocks present a particularly promising opportunity due to several compelling factors. Primarily, these stocks often have significant exposure to domestic growth, focusing on the local market as a source of robust expansion. Furthermore, mid-cap companies are typically well-positioned to innovate, pivot, and adapt to new market trends and demands, showcasing their flexible and dynamic nature. Another advantage is the potential for mergers and acquisitions (M&A) activity, which can unlock substantial value for shareholders.

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

Regards,

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