



Sapphire Star Capital Small Cap Strategy Q4 2024

Commentary

The small-cap market while exhibiting meager positive performance in the fourth quarter of 2024 capped off very strong double-digit gains for the year. The Russell 2000 index, which evaluates the performance of approximately 2,000 small-cap companies in the United States, notched a meager return of 0.33% while the Russell 2000 Growth Index gained 1.70%. For the year the Russell 2000 Index gained 11.54% while the Russell 2000 Growth Index gained an impressive 15.15%.

Several key drivers and trends have contributed to the impressive performance of the small-cap market in 2024. This year has seen remarkable developments that have propelled small-cap stocks to new heights, reflecting the dynamic and evolving landscape of the market.

Supportive monetary and fiscal policies have provided a conducive environment for small-cap stocks. Lower interest rates and significant government stimulus measures have increased liquidity in the market, enabling small-cap companies to access capital more easily and invest in expansion and innovation. Central banks have maintained an accommodative stance, ensuring that financial conditions remain favorable for borrowing and investment. Furthermore, fiscal policies have targeted specific sectors, providing direct support that has bolstered the growth prospects of small-cap firms. This combination of monetary and fiscal initiatives has created an optimal setting for small businesses to thrive.

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. These companies are pioneering new technologies and methods, positioning themselves as leaders in their respective fields. Sectors such as technology, healthcare, and clean energy have seen substantial growth, with small-cap companies leading the charge in these dynamic industries. The healthcare sector, for example, has benefited from breakthroughs in medical research and biotechnology, while the clean energy sector continues to grow as society shifts towards more sustainable energy sources. Additionally, the technology sector has witnessed rapid advancements in areas such as artificial intelligence, cybersecurity, and fintech, with small-cap companies playing a key role in these developments.

Portfolio Review

- **Performance Comparison in Q4 2024:**
 - The **Sapphire Star Small Cap Strategy** shined in the 4th quarter, gaining 4.40% net. 100% of the outperformance was due to stock selection. Specifically, the strategy had winners in the health care, consumer staples and energy sectors relative to the benchmark, while only materials and communications hindered performance.

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- On an individual stock basis, Hims & Hers Health, Inc. +31.27%, Cal-Maine Foods, Inc +39.10% and Mueller Industries +7.37% powered both absolute and relative performance. AeroVironment, Inc. (23.25%), Cleavland Cliffs, Inc. (-26.39%) and Tenet Healthcare Corp. (24.05%) restrained growth during the quarter.

As we always remain committed to our investment process, our small cap strategy performed admirably during the challenging quarter and finished the year with a strong 12.71% return. Adherence to our process results in a portfolio of fundamentally superior companies that can sometimes perform significantly differently than the small-cap market, and in the case of the fourth quarter of 2024, our investors were handsomely rewarded.

Looking Forward

We firmly believe that the current outlook for investing in small-cap stocks is unparalleled, and it is anticipated that small-cap stocks will significantly outperform their larger-cap counterparts over an extended period.

Key points include:

- **Higher Growth Potential**
Small-cap stocks, often in early growth stages, can grow faster than large-cap stocks. They are expected to benefit from lower interest rates in 2025.
- **Market Inefficiencies**
With less analyst coverage, small-cap stocks can be undervalued, giving investors a chance to discover hidden gems.
- **Active Management Opportunities**
Skilled managers can add value through stock selection due to market inefficiencies in the small-cap space.

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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