



Sapphire Star Capital Small Cap Strategy Q1 2025

Commentary

The first quarter of 2025 presented a stark contrast to the stability observed in 2024, marked by pronounced volatility and significant market challenges. During this period, the Russell 2000 Growth Index experienced a substantial decline of 11.12%, while the Russell 2000 Index fell by 9.48%. This downturn reflects the turbulent conditions and the uncertain economic environment that prevailed during the early months of the year.

The inception of President Trump's second term in office initially sparked a wave of optimism in January, contributing to a positive market sentiment and resulting in the Russell 2000 gaining 2.62%. However, this favorable momentum proved to be ephemeral as the quarter progressed. The market faced a series of disruptive events, largely attributable to rapidly shifting policies emanating from Washington D.C. These policy changes created an unpredictable and volatile environment for small-cap stocks, undermining investor confidence and contributing to the observed declines.

Despite the persistent volatility observed at the close of the quarter, positive indicators emerged there, suggesting a potential stabilization as the new administration began to find its footing. Efforts to temper the volatility and establish a more predictable policy landscape were underway, offering a glimmer of hope for a more stable and favorable market environment in the ensuing months. The administration's initiatives aimed at mitigating the adverse effects of policy shifts and fostering a more conducive atmosphere for economic growth could potentially restore investor confidence and support a recovery in the small-cap sector.

Portfolio Review

Performance Comparison in Q1 2025

- Overall Performance:
 - Sapphire Star Capital Small Cap Strategy: -8.56%
 - Russell 2000 Growth: -11.12%
 - Russell 2000: -9.48%

Sectors That Aided Performance:

- Financials: Demonstrated resilience and growth.
- Consumer Staples: Steady gains reflecting strong consumer demand.
- Healthcare: Solid performance driven by innovation and demand.

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Sectors That Restrained Performance:

- Materials: Faced challenges due to fluctuating supply chain dynamics.
- Industrials: Struggled amidst global economic uncertainties.
- Energy: Volatile market conditions impacted performance.

Individual Stock Performance:

- Hims & Hers: +22.21% - Outstanding growth, capitalizing on market opportunities.
- BJ Wholesale: +27.70% - Strong performance driven by consumer demand.
- Palomar: +29.82% - Excellent returns reflecting strategic positioning.
- RadNet: -28.81% - Performance hindered by sector-specific challenges.
- Powell Industries: -23.05% - Impacted by industry-wide difficulties.
- AeroVironment: -22.55% - Faced headwinds in a turbulent market.

Attribution of Outperformance:

- Stock Selection: 68% - Demonstrates our prowess in identifying winning stocks.
- Sector Allocation: 32% - Strategic placement that leveraged sector strengths.

Despite the challenging conditions, our unwavering focus on fundamentally superior stocks enabled our portfolio to significantly preserve our investors' capital relative to our benchmarks. This commitment to excellence continues to drive our success in turbulent times.

Looking Forward

Sapphire Star Capital's Small Cap Strategy holdings have demonstrated remarkable resilience amidst a challenging economic landscape. With an average forecasted sales growth of 17% and an anticipated earnings growth of 30%, coupled with a 5.6% increase in analyst earnings estimates over the past three months, our holdings are well-positioned for the forthcoming earnings announcement season.

We have observed an improvement in the breadth and strength of the overall stock market. This earnings announcement season has been further buoyed by flagship stocks such as Google and Netflix surpassing analyst estimates, thereby enhancing investor sentiment.

Our portfolio comprises small cap stocks that exhibit high sensitivity to trading volume, rendering them both volatile and possessing significant appreciation potential. These stocks are also predominantly domestic, naturally benefiting from substantial onshoring efforts that are expected to bolster U.S. GDP growth.

With discussions surrounding tariffs becoming less contentious and more countries finalizing trade agreements with the United States, the environment is increasingly conducive to a robust and sustained recovery in small cap stocks. The reduced rhetoric on tariffs has resulted in the stabilization of financial markets, thereby creating a favorable environment for small cap stocks to thrive. Moreover, this

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evolving trade landscape not only lays the groundwork for a long-term bull market in small cap stocks but also fosters enhanced investor confidence and greater market participation. As additional trade agreements are finalized, the positive momentum is anticipated to further bolster small cap stocks, ensuring a prosperous future for these investments.

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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