



Sapphire Star Capital Mid Cap Strategy Q42025

Commentary

Mid cap stocks faced significant headwinds in the fourth quarter of 2025, lagging both large cap and small cap equities as measured by the Russell Indexes. The Russell Mid Cap Growth Index declined (3.70%) over the period, in sharp contrast to gains of 1.22% for the Russell 2000 Growth and 2.41% for the Russell 1000.

A primary factor behind this weakness was the pronounced correction in a handful of heavily weighted constituents, most notably Vistra Corp. (17.54%), Axon Enterprises (20.86%), and Royal Caribbean Group (13.50%), which together comprised nearly 6% of the index's market value, none of which are in our strategy. The broader technology sector also weighed on results, as mid cap technology holdings, unlike their large cap counterparts, were more vulnerable during the market pullback and did not benefit from previous runups in the same way small caps had.

The challenges mid-caps endured underscore the importance of skilled, active management in this dynamic asset class. In an environment where market leadership shifts and sector dynamics evolve rapidly, experienced managers are essential for uncovering companies with defensible competitive advantages, and for navigating volatility to protect earnings and margins.

Portfolio Review

- **Performance Summary:**
 - Q4: (0.66%) net of fees
 - YTD: 22.64% net of fees
- **Russell Mid Cap:**
 - Q4: 0.16%
 - YTD: 10.60%
- **Russell Mid Cap Growth:**
 - Q4: (3.70%)
 - YTD: 8.66%
- **Top quarterly Contributors:**
 - Steel Dynamics Inc. +21.89%, Sanmina +30.37%, Mueller Industries +13.79%
- **Detractors:**
 - Super Micro Computer (38.94%), Hims & Hers Health Inc. (42.75%), Itron (25.45%)



- **Sector Impact:**
 - Positive: Industrials, Material & Finance
 - Negative: Health Care, Consumer Discretionary & Consumer Staples
- **Strategy Notes:**
 - We are encouraged by the positive comparative results achieved this quarter and for the year, and we remain committed to identifying new investment opportunities. Although our Mid Cap strategy concluded the quarter with a slight decrease of (0.66%), it delivered positive returns in two of the three months within the quarter and produced a net annual return of 22.64%, far exceeding the performance of both the Russell Mid Cap +10.60% and Russell Mid Cap Growth Index +8.66%.

Looking Forward

We maintain a constructive perspective regarding the trajectory of the economy and financial markets. While we foresee a continued decline in the key interest rate, we expect this adjustment to proceed at a measured pace, given that market rates remain appreciably below the key rate. Notably, we are optimistic that the sound fundamentals underpinning our portfolio will enable our holdings to surpass earnings expectations. The economy has already demonstrated renewed vigor, and we are confident that this positive momentum will persist, with the potential to achieve a 5% GDP growth rate in the first half of 2026. We also anticipate that market volatility will remain somewhat elevated, presenting both risks and opportunities in the period ahead. Although the recent moderation in inflation is encouraging, we remain vigilant and will continue to monitor inflationary pressures closely to help ensure the ongoing stability of the economy.

Thank you for your confidence in the Sapphire Star Mid Cap Strategy. Please do not hesitate to contact us if you have any questions or require further assistance.

Regards,

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