



## Small Cap Advantage

### Portfolio Comments

June 30, 2019

### Distinguishing Features

As of 6/30/2019, the [Small Cap Advantage](#) portfolio remains overweight the technology sector compared to the Russell 2000 Growth benchmark, with a current 31% weighting compared to 16% for the benchmark. The portfolio's overweight to the Index in producer durables also continues (22% versus 16%). All other sectors are underweighted versus the benchmark, with financials continuing as the largest underweighting (3% versus 11%), followed by healthcare (20% versus 26%). Smaller relative underweight positions are in consumer discretionary (14% versus 18%), materials (5% versus 7%) and utilities (1% versus 2%). As of 6/30, the portfolio has no exposure to energy and consumer staples.

### Commentary

#### Market Environment

During second quarter of 2019, the market changed courses each month. April returns were buoyed by the strong corporate earnings reports. May was marked by intensified trade wars with Mexico and China, and the markets were down sharply. June posted a rebound, reflecting strong consumer spending and the possibility of a future interest rate cut by the Fed. The Russell 2000 Growth Index ended the quarter up 2.75%. Year-to-date, the Index is up 20.36%

#### Performance Discussion

In the 2nd quarter, the Small Cap Advantage composite soundly outperformed the benchmark, returning 8.11%, net-of-fees. Year-to-date through June, the composite has returned of 36.76%, net-of-fees. Broad-based stock selection drove performance in the quarter, led by technology and assisted by producer durables, materials, financial services, and consumer staples. Utilities also posted positive stock selection. The portfolio's overweighting in technology weighed slightly on relative performance, as technology was a poor performer for the overall Index. On the other hand, the portfolio's overweight position in producer durables boosted relative performance. The portfolio's lack of exposure to the energy sector aided relative performance this quarter.

All three LifeCycle categories outperformed the overall benchmark in the quarter, led by Core Growth holdings. The quarter's top 5 performers were from all three LifeCycles and represented four sectors: CoStar Group (producer durables, Core Growth), Brooks Automation (technology, Special Situation), Beyond Meat (consumer staples, Pioneer), Coupa Software (technology, Pioneer), and DMC Global (materials, Special Situation).

The quarter's largest detractors included two consumer discretionary holdings – 2U (Pioneer) and Etsy (Core Growth). Two technology names were also in the bottom five – Virtusa Corporation (Core Growth) and LivePerson (Special Situation). Both Etsy and LivePerson were among the top performers last quarter. Chart Industries (producer durables, Special Situation) was also in the bottom five for the quarter.

#### Outlook

While growth is generally scarce across the economy, we believe that the outlook for the companies in the Advantage portfolio is very good. These companies are, in general, experiencing excellent growth that we believe can be sustained for the foreseeable future, as they are poised to capitalize on substantial long-term opportunities. Many of these companies are leaders in terms of innovation and market disruption.



In comparison to small cap value stocks, small cap growth stocks are trading at premium valuations (based on *current* earnings), and we believe that this may persist for some time given the dynamic opportunities available to many of these companies. Company fundamentals drive our bottom-up excellent stock analysis and decision making, and diversification across the three LifeCycle categories – each with distinct performance drivers – balances the portfolio. *Both are important to the long-term consistent performance of the Small Cap Advantage strategy.*

*Disclosure:*

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