



## Small Cap Advantage

### Portfolio Comments

December 31, 2019

### Distinguishing Features

As of 12/31/2019, the [Small Cap Advantage](#) portfolio remains overweight the technology sector compared to the Russell 2000 Growth benchmark, with a current 28% weighting compared to 16% for the benchmark. The portfolio's overweight to the Index in producer durables also continues, though reduced from last quarter (now 20% versus 16%). In the energy sector, the portfolio's small weighting is now slightly above the Index (3% to 1%). All other sectors are underweighted versus the benchmark, with financials continuing as the largest underweighting (4% versus 11%). Three sectors are each 3% underweight the index: healthcare (27% versus 30%), materials (4% versus 7%) and consumer staples (0% versus 3%). Smaller relative underweight positions are also in consumer discretionary (12% versus 14%), and utilities (1% versus 3%).

### Commentary

#### Market Environment

In the fourth quarter, the continued strength and sentiment of the US consumer, falling inflation, and a slight upward revision of US real GDP growth number for the 3<sup>rd</sup> quarter, outweighed any worries over trade wars and political issues. The Russell 2000 Growth returned a robust +11.4%, with a total return for 2019 of +28.5%.

#### Performance Discussion

The Advantage portfolio fared well in the 4th quarter, outperforming the benchmark with a return of +14.1%, bringing the year-to-date 2019 return to +43.4%, net-of-fees, soundly ahead of the benchmark. Stock selection in the technology and financial services sectors accounted for much of the outperformance, and the portfolio's underweight position in financial services boosted the selection effect, while the overweight in technology slightly reduced the positive selection. Stock selection in healthcare, utilities and energy also assisted performance, though the portfolio's underweighting in healthcare offset the positive selection in the sector. Selection in consumer discretionary, producer durables and materials weighed on performance, and the portfolio's overweight position in producer durables also hurt. The portfolio's lack of exposure to the consumer staples sector helped relative performance this quarter.

With respect to LifeCycles, the Pioneer holdings drove performance in the quarter. Core Growth also was a positive, while the portfolio's Special Situation holdings underperformed the overall Index. The quarter's top 5 performers included four Pioneer holdings – eHealth (financial services), Medicines Company and Esperion Therapeutics (both healthcare), and Carbonite (technology). A Core Growth holding, NeoGenomics (healthcare), completes the top five.

On the negative side, the quarter's five largest detractors included all three LifeCycles. Consumer discretionary holding, Etsy (Core Growth), was the largest detractor. Three producer durable companies were also in the bottom 5 – CoStar Group (Core Growth), Modine Manufacturing and NV5 Global (both Special Situation). Another consumer discretionary holding, RumbleOn (Pioneer), rounded out the bottom five.



## Outlook

The last two quarters highlighted how investor sentiment can shift dramatically in a short time period. We frequently comment that we have no crystal ball (nor do we believe that there is a reliable one out there). Instead, we are focused on executing our process as tightly as possible – separating companies from stocks as we seek strong well-positioned companies and use our tools to invest in the stocks of these companies when risk/reward is attractive. As bottom up investors, stock selection drives performance across sectors and LifeCycles.

### Disclosure:

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