



## Small Cap Advantage

### Portfolio Comments

June 30, 2020

### Distinguishing Features

As of 6/30/2020, after the annual rebalancing of the Russell Indices, the [Small Cap Advantage](#) portfolio continues its overweight in the technology sector compared to the Russell 2000 Growth benchmark, 29% versus 20%. The portfolio also remains overweight to the Index in producer durables, 19% versus 11%. Consumer discretionary is also overweight versus the benchmark, 16% to 13%. In the energy sector, the portfolio is now nearly equal-weight to the Index at <1%. All other sectors are underweighted versus the benchmark. Healthcare is the largest underweighting (27% versus 34%), more a result of the increased weighting for the Index due to the surge in biotechs, as the portfolio is back to its year-end weighting. The financial services sector is 5% underweighted, 4% versus 9%, while the materials sector is about 3% underweighted the benchmark, 2% versus 5.7%. The portfolio currently has no exposure to the small utilities and consumer staples sectors.

### Commentary

#### Market Environment

In the second quarter of 2020 the Russell 2000 Growth logged its third highest return in its history. The Index's +30.6% return ranks behind only the 4th quarters of 1982 and 1999. To combat the economic effects of the coronavirus pandemic, governments and central banks around the world have pumped \$7 trillion into the global economy. Improving economic trends from the very low levels reached in late March have also helped to buoy the markets.

#### Performance Discussion

In the 2<sup>nd</sup> quarter, the Small Cap Advantage portfolio returned +44.6%, net of fees, significantly above the also impressive +30.6% return of its Russell 2000 Growth benchmark. Year-to-date, the portfolio has returned +12.0%, net of fees, versus -3.1% for the Index. In the quarter, positive broad-based stock selection accounted for most all the outperformance, led by the technology and consumer discretionary sectors. Producer durables and healthcare also showed strong selection, plus selection was positive in utilities, consumer staples, and energy. Financial services was the lone sector with negative selection, though this was partially offset by our underweight position here. The portfolio's overweight positions in technology, consumer discretionary and energy boosted relative performance, while our allocations in producer durables (overweight) and materials (underweight) slightly weighed on performance. Our underweight position in utilities, as well as our lack of exposure to consumer staples, were positives.

With respect to LifeCycles, all three categories handily outperformed the benchmark return. The quarter's top two performers were consumer discretionary names from the Core Growth LifeCycle category – **Etsy** (ETSY) and **Chegg** (CHGG). Also in the top five were **LivePerson** (LSPN, Special Situation, technology), **Immunomedics** (IMMU, Pioneer, healthcare), and **Kornit Digital** (KRNT, Core Growth, producer durables).

On the negative side, three of quarter's bottom five detractors were from the producer durables sector: **Douglas Dynamics** (PLOW, Special Situation), **OSI Systems** (OSIS) and **CoStar Group** (CSGP), both Core Growth. The largest detractor in the quarter was from the financial services sector, **eHealth** (EHTH, Pioneer). Rounding out the bottom five was a consumer discretionary holding, **Strategic Education** (STRA, Core Growth).



## **Outlook**

The uncertainty surrounding the economic impact of the pandemic along with the massive stimulus has created an interesting juxtaposition. So far the stimulus is propelling the market higher; how the markets react to company earnings reports to be released in late July could prove interesting. At GIM, we remain focused on executing our process – 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 in most all market environments.

### Disclosure:

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