



## Small Cap Discoveries

### Portfolio Comments

December 31, 2020

### Distinguishing Features

GIM builds the [Small Cap Discoveries](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. As of 12/31/2020, the Small Cap Discoveries portfolio continues its large overweight position in Industrials compared to the Russell Microcap Growth benchmark, 16% versus 9%, and its overweighting in producer durables, 3% to <1% (representing one holding, Kornit Digital). Healthcare has moved from an underweight position to about equal-weight versus the Index, at 47%. The portfolio continues to be overweighted in 3 small sectors: utilities (3.5% versus 1%), real estate (3% versus 1%), and basic materials (2% to 1%). The remaining sectors are underweighted the benchmark with technology now the largest underweight at 12% versus 17% for the Index. Consumer discretionary has moved from equal-weight to an underweight position, 10% versus 13%. Financials continue to be underweighted, 1.5% versus 4%. The portfolio has no exposure to the consumer staples, energy, and telecommunications sectors where the Index weightings in these small sectors are 3%, 3%, and 2%, respectively.

### Commentary

#### Market Environment

US markets posted another exceptional return in the 4th quarter. The markets were buoyed by several significant factors over the quarter: the cloud of uncertainty over the election was lifted, the FDA approved two vaccines and their subsequent initial roll-out began, and Congress finally passed another COVID-19 relief package. The coronavirus pandemic has caused a rewiring and modernization of companies in surprising ways, serving up unexpected opportunities for some to prosper.

#### Performance Discussion

In this environment, the Discoveries composite returned +34.7% net-of-fees. The strategy outperformed both its primary benchmark, the Russell Microcap Growth's +29.7%, and its secondary benchmark, the Russell 2000 Growth's +29.6%. For the year, the strategy returned +45.7% net of fees, nicely outperforming the Russell Microcap Growth's +40.1% return, and well ahead of the Russell 2000 Growth's return of +34.6%.

For the 4<sup>th</sup> quarter, relative outperformance versus the Russell Microcap Growth benchmark was due to strong stock selection, led by selection in the healthcare and technology sectors, and assisted by real estate and utilities. Good selection in industrials was more than offset by our overweight position in this underperforming sector for the Index. Energy was the largest detractor due to our lack of exposure to this strong performing sector for the Index in the quarter. Our lack of exposure to consumer staples also hurt, while no exposure to telecommunications was a plus. Stock selection in financials and consumer discretionary weighed on performance, as did our underweight position in these two sectors.

With respect to LifeCycles, the Pioneer and Core Growth LifeCycle categories soundly outperformed the Index, while the Special Situation category lagged. The quarter's top five contributors were from the Pioneer LifeCycle category, with four of the top five in the healthcare sector: **Organogenesis Holdings**, **Beam Therapeutics**, **Editas Medicine**, and **Veracyte**. The quarter's top performer was **Magnite, Inc.** from the technology sector, which rounds out the top five.



The five largest detractors in the quarter include three healthcare names: **Esperion Therapeutics** (Pioneer), **Cardiovascular Systems** (Core Growth), and **Xeris Pharmaceuticals** (Pioneer). Two Special Situation names are also in the bottom five: **Limelight Networks** (technology) and **Sonic Automotive** (consumer discretionary).

## **Outlook**

Over the course of the Russell Microcap Growth's history, there have been very few quarters where the Index has returned greater than 29%. In 2020, we have had two quarters above this outstanding return. Pioneers have been the best performing category in the portfolio; we have been trimming the winners and adding to names in other LifeCycle categories.

The returns achieved in 2020 would have been extraordinary in any year, let alone during a global pandemic. The market is forward looking, though government stimulus, near 0% interest rates, retail investors returning to the markets in droves, and historically high level of margin debt have all played a part in the market rise. For the Discoveries portfolios, as bottom-up investors, we will continue our strict adherence to our discipline processes to select out the companies across LifeCycles that demonstrate superior fundamental factors no matter the market environment. Our valuation tools will guide us to invest in the stocks of those companies when risk/reward is attractive.

### Disclosure:

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