



Q4 2020

Commentary

When reflecting on the 2020 stock market we see that it closed much like it began, with equities in a bull market achieving all-time highs. The irony of course is the period in between which included a global pandemic, upended financial markets, a record speed bear market and an unprecedented market rebound. Quickly responding to the crisis, policymakers took action to limit the economic fallout from the pandemic, cutting rates globally and approving massive stimulus packages. The result was a 2020 stock market that defied predictions (even those that were made prior to the start of the pandemic). The lesson or takeaway here is that market performance is not always directly linked to economic performance. The market ultimately takes its direction from fundamentals punctuating a disciplined investment strategy and long-term view. Investors were rewarded for their patience with a buying opportunity and then a market that quickly returned to record highs. Stock market rallies need breathers; however, these pullbacks do not preclude further gains but instead create opportunities during bull markets.

Portfolio Review

The small cap market and the Sapphire Star Small Cap Strategy soared to new highs during the fourth quarter with the Sapphire Star Small Cap Strategy returning 28.64% net, versus a return of 29.61% for the Russell 2000 Growth and 31.37% for the Russell 2000 Index. The portfolio benefited from stock selection during the quarter most notably, 3 positions, that were added during a market pullback in Q2 2020. Intellia Therapeutics, Inc. (+173.664%), Twist Bioscience (+85.98%) and CRISPR Therapeutics (+84.06%). Sector allocation hindered the portfolio's performance a bit with holdings such as Meritage Homes Corp (-24.98%), AudioCodes Ltd. (-12.43%), and Jounce Therapeutics (-14.22%) hampered the portfolio the most. Currently, the portfolio continues to be most heavily weighted in the electronic technology & health technology, while the retail sector rounds the top three. The portfolio continues to be most underweight in the non-energy minerals, industrial services, and energy minerals sectors. As we anticipated small caps to catch-up to large caps, the performance differential during the 4th quarter was nothing short of spectacular, as small caps outpaced large caps and more.

Looking Forward

It appears that COVID's impact on the stock market is comparable to that of a natural disaster, the economic restart is rapid, yet the long-term economic damage is less lasting. With 2021 well underway, the equity markets are off to a strong start on the hope that 2021 will see more stimulus, a reliable vaccine, and post vaccine economic recovery. We believe that small-cap stocks are poised to do very well in 2021 even if the market pulls back a bit in the short term. The outperformance of small caps is not unusual. Small caps tend to be more volatile, often falling more than the broader market on big pullbacks and rallying bigger than the broader market on the recovery. Small caps tend to be more

7826 Leary Way NE
Suite 201
Redmond, WA 98052
Phone: 425.576.4083



closely linked to the underlying economy with a domestic focus, not global. The biggest risk that we see in 2021 is an inability to end the pandemic, although that risks seems less likely with every day as more vaccines are approved and distributed.

The health technology and health services sectors were major contributors to the Sapphire Star Small Cap strategy's performance in 2020 and is an area that we feel continues to be attractive in 2021 and beyond. The pandemic has fast-forwarded these offerings which have caused disruptive changes that will impact the technology and health services market significantly. The pandemic has also changed the way that patients experience healthcare and will drive what they expect in the future. We believe that health technology and health services holdings will continue to aid healthcare organizations to meet the expectations of consumers and will be very positive for technology related cyclical.

It is our view that there will be a high adoption of sustainable and renewable technologies and opportunities in the carbon neutrality race and have started to nibble in this space. During the 4th quarter we purchased Pug Power which returned (119.2%) by the end of 2020. Plug Power takes the hydrogen and fuel cell technology from concept to commercialization. We see significant momentum behind the trend and will look to add positions as appropriate. Another area that we feel continue to rapidly grow in 2021 is the digital communications sector. We did very well in the space in 2020 with Tech Target being the highest overall contributor to performance due to its weighting with a return of (126%). We believe that the future of digital communications is very bright as more and more online businesses will move to this communications model going forward.

We look forward to a healthy stock market and economy in 2021 as the world recovers from this unprecedented pandemic. Major Wallstreet & banking firms tend to agree with our outlook as Bank of America mentioned "In the U.S., we think 2021 will be a transition year, moving back to services from goods, to private from public and to in-person from virtual. The scars of COVID will remain. We look for the economy to grow 4.5% in 2021. The first fed hike is unlikely until the second half of 2024."

We believe that small-cap stocks have now begun the long road of out-performance relative to their large cap brethren and this re-emerging trend will continue into the foreseeable future.

As always, we welcome any questions or concerns that you may have and appreciate your continued confidence in the Sapphire Star Small Cap Strategy.

Regards,

Michael J. Borgen

Founder & CIO

Sapphire Star Capital LLC

Meghan N. Chicoine

COO & CCO

Sapphire Star Capital LLC

7826 Leary Way NE
Suite 201
Redmond, WA 98052
Phone: 425.576.4083



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ⁱ <https://www.bloomberg.com/graphics/2021-investment-outlooks>.

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