Q1 2021

Commentary

Continued progress against COVID-19 resulted in optimism about an economic rebound and a return to the some-what-normal. During the first quarter of 2021 equity markets extended their strong run following the lows reached at the start of the pandemic just over a year ago. Leading the pack were US based small and small value stocks and as it relates to the overall market, companies with the lowest market caps produced the highest returns. The Russell microcap index did best, followed by the small-cap, mid-cap, and large-cap indexes. The strength of small cap performance at the end of 2020 carrying over to 2021 appears to indicate restored investor confidence in small caps as well as in the markets ability to continue its bull run. With Q2 well underway, we believe that we are at the precipice of a very powerful economic cycle largely in part due to better than expected vaccine rollout and distribution, continued monetary support as well as continued stimulus and ample cash in both the consumer and corporate sectors, itching to be put to work.

Portfolio Review

The Sapphire Star Capital Mid Cap strategy started 2021 off on the right foot gaining 2.01% Net, versus a -0.56% decline for Russell Mid-Cap Growth Index. Looking at the strategy through an attribution analysis lens, both stock selection and sector allocation contributed positively to the relative performance of the strategy with stock selection accounting for most of the out-performance. Diving into sectors; technology services, retail trade, and finance were the top three from a relative performance perspective. Commercial services, consumer non-durables and transportation were the three sectors that hindered the portfolio the most. When diving deeper into the analysis and looking at specific holdings, Big Lots (+59.80%), KLA Corporation (27.97%) and LPL Financial (36.64%) were the top three contributors to performance while Copart (-14.65%), Masimo Corp. (-14.43%) and Twist Bioscience (-12.34%) were the three holdings that restrained portfolio performance the most during the quarter. At the end of the first quarter, health technology, technology services and commercial services were the three most heavily weighted sectors. Transportation, non-energy minerals, and distribution services were the three lowest weighted sectors in the portfolio.

Looking Forward

With Q22021 well underway, President Biden's $1.8 trillion America Rescue Plan is poised to supercharge U.S. recovery efforts ultimately resulting in fast and furious economic growth. In fact, as reported by US News and Russell Investments[1], the Federal Reserve recently raised its 2021 GDP growth forecast to 6.5% and if that number is achieved it would mean the best calendar-year outcome since 1984. Large-cap companies typically are multinational, operating in many countries around the world. Among the 500 U.S. large-cap companies, only 62% of sales are domestic, compared with 75% for the 400 mid-cap companies, according to 2019 figures compiled by S&P Dow Jones Indices. As a result, mid

[1] Investing and Personal Finance News and Research - US News Money https://russellinvestments.com/us/insights

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cap companies are less exposed to currency fluctuations or a slowdown in the global economy than large caps and stand to benefit greatly from strong U.S. economic growth. Mid cap companies generally have established management teams, broad distribution channels, and accessible capital. We believe that mid-cap stocks can serve an important role in a well-diversified portfolio because they blend some of the best attributes of their smaller and larger counterparts and are often an overlooked asset class. Mid-caps have shown the ability to deliver attractive returns historically with relatively low risk and volatility. Additionally, these companies may exhibit solid growth as they expand into new products and services—and they could benefit from a potential merger or acquisition. It is important to note that as we do believe earnings are going to be strong throughout 2021 and beyond, market volatility will still play into the scenario at times during the year. We think that diversification of both value and growth investments offer a compelling risk/reward over time. As has been the case in the past, when one is flourishing, the other is lagging so it is important for investors to seek more resilient portfolios such as the Sapphire Star Mid Cap strategy, which incorporates the relative strength of diversification through its active management approach. The ability to distinguish between companies that can continue to deliver earnings growth post COVID will be key as well as the ability to cull those that were able to hang on during the pandemic but have little future earnings potential.

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

Regards,

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