Q2 2021

Commentary

The second quarter of 2021 saw the major economies of the world roaring back, resulting in a historic and unprecedented economic turnaround following a global catastrophe of this magnitude. We see a strong U.S. economy with U.S. company earnings YTD among the best ever recorded. Pent-up consumer demand and robust household balance sheets contributed greatly to the cyclical stock rally providing a tailwind for areas of the market that were the hardest hit throughout much of the pandemic. Many companies used the crisis to adapt, innovate and improve operations, technology and analytics. The stark contrast of growth vs. value stocks began to fade during the quarter and U.S. stock market volatility fell to 2019 pre-pandemic levels. With effective vaccines and the easing of restrictions it is our view that we will continue to see robust growth for the remainder of 2021 and well into next year. In fact, in early April, the International Monetary Fund revised its growth estimates significantly higher with the expectation that the US economy will expand 6.4% vs their original forecast of 3.1%.[1]

Portfolio Review

The Sapphire Star Mid Cap strategy continued to perform well during the 2nd quarter of 2021 gaining 6.77% Net versus 11.08% for the Russell Mid Cap Growth Index. At the end of Q2 health technology, consumer durables and the commercial services sector comprised the top three sectors in the portfolio, while the portfolio was least weighted in transportation, miscellaneous and the energy minerals sector. From a holding's perspective Roku, Inc. was the top performer gaining 40.97%, followed by MSCI Inc. 27.36%, and Copart, Inc. 21.38%. Discovery, Inc. (29.29%), Bright Horizons Family Solutions, Inc. (14.20%) and M.D.C. Holdings, Inc. (15.09%) were the three holdings that hindered portfolio performance the most. From an attribution analysis viewpoint, both stock selection and sector allocation hindered portfolio's relative performance. Holdings in the consumer durables, non-energy minerals, and transportation sectors aided the portfolio the most. The three sectors that hindered relative performance the most included health technology, consumer services and consumer non-durables sectors.

Looking Forward

Looking ahead to the end of the year and taking into account the continued reopening, existing household savings buffers, and likely more stimulus we remain pro-risk on a strategic basis. However, we also feel that rising cost pressures, transitory inflation and market volatility make it very important to diversify among sectors and companies. As you may recall, during the second half of 2020 we began to increase the portfolio's allocation to economically sensitive cyclical stocks. As we look ahead now to the second half of 2021, we do believe that these cyclical stocks still have room to run and will continue to benefit from the economic reopening. That being said however, we believe a careful balance between is

[1] International Monetary Fund, World Economic Outlook Database, April 2021.

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necessary as long-term growth trends are alive and well. With a market midcycle on the horizon we will look to quality stocks as they tend to perform well during these periods. Finally, August is generally a weak month for the markets due to many on Wall Street taking extended summer vacations. In my experience August has been a catalyst in creating highly attractive buying opportunities within the markets which we look forward to participating in.

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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