



Q3 2021

Commentary

The 3rd quarter of 2021 commenced with gains amid continued economic recovery and a positive Q2 earnings season. The U.S. economy continued to return to pre-pandemic activity levels and the S&P hit new all-time highs. During the month of August politics became a focus with the Senate passing a \$3.5 trillion budget reconciliation bill setting the stage for a looming policy battle and uncertainty about potential changes to tax rates. Stocks however rode the wave higher throughout the month of August seemingly looking past the future risks and renewed pandemic concerns of the Delta Variant. During the month of September many of the positives that had supported stocks in July and August began to fade and the tone of the market changed. Profit concerns due to supply chain constraints, and margin compression resulted in a more cautious outlook on corporate earnings, causing investor concern. The market volatility experienced in the last few trading days of September substantially impacted the returns for the quarter. This reminded investors that transitions in the post pandemic environment aren't always going to be smooth and numerous unknowns could result in more market volatility

Portfolio Review

The Sapphire Star Mid Cap Strategy performed very well during the 3rd quarter of 2021 gaining +1.55% net versus a decline of (0.84%) for the Russell Mid Cap Growth Index. At the end of the quarter health technology, technology services and the finance sector comprised the top three sectors in the portfolio, while the portfolio continued to be least weighted in transportation, energy minerals and the miscellaneous sector. From a holding's perspective Repligen Corp. 44.77%, MSCI Inc. 14.31%, and Paycom Software, Inc. 33.26% were the top three contributors to performance. Roku, Inc. (31.77%), Big Lots (33.89%) and Twist Bioscience Corp. (19.72%) were the three holdings that hindered portfolio performance the most. From an attribution analysis viewpoint, stock selection aided relative portfolio performance while our sector allocation slightly hindered strategy's relative performance. Holdings in the health technology, technology services, and industrial services sectors were the three sectors which aided the portfolio the most. The three sectors that hindered relative performance the most included consumer durables, consumer services and retail sectors.

Looking Forward

The U.S. along with most other developed countries of the world, has been fortunate to benefit from a powerful post-lockdown recovery resulting from the pandemic. However, with this growth peaking in Q2, the market enters a mid-cycle stage to close out 2021. We maintain our view that the cyclicals still have room to run as we are still in a recovery phase, albeit one that has matured. We believe a careful balance between value and growth is necessary and we will continue to add quality stocks as they tend to perform well during mid-cycles. In my experience managing portfolios for over 25 years, equities do

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



well during mid-cycle stages as many opportunities still exist and this outperformance in the Mid Cap space can last for several years after a recovery period. Midcaps traditionally perform well during periods of economic expansion and are generally isolated from geopolitical events or concerns given their domestic focus. Mid Cap outperformance can last for several years after a recovery period. Although we will see growth in the economy and earnings slowing from the peak, the environment should remain above average through the end of 2021 and well into 2022. As investors it is important to remember that a slowing economy does not mean a stalling economy. Current government support of infrastructure will extend the economic cycle as will strong consumer balance sheets and continued spending of savings accumulated during the pandemic. Also in my experience, and another positive is that the 4th quarter tends to provide the strongest total returns on average. In fact, over the last 25 years, the S&P has provided an average total return of 10.8% per year, and the fourth quarter has provided nearly half (+5.3%) of those returns.¹

This all being said, we expect the remainder of 2021 to bring some disruptions and volatility to the market as concerns and uncertainty over supply chains, corporate earnings, inflation, tax rate changes, disruptions due to vaccine mandates and the ever-lingering COVID-19 remain. It is our view that through these disruptions' opportunities will be presented and we are poised to leverage the volatility and take advantage of any minor pullbacks. The rolling correction has uncovered previously out of reach securities.

As always, we welcome any questions or concerns that you have and thank you for your continued confidence in the Sapphire Star Mid Cap Strategy.

Regards,

Michael J. Borgen

Founder & CIO

Sapphire Star Capital LLC

Meghan N. Chicoine

COO & CCO

Sapphire Star Capital LLC

¹ HSBC Global Private Banking Investment Outlook Q4 2021



Important Disclosures:

Sapphire Star Capital LLC is a registered investment adviser and the information contained herein has been prepared by Sapphire Star Capital LLC. Such information is obtained from and based upon sources believed to be reliable, but accuracy cannot be guaranteed. Sapphire Star Capital LLC and its affiliates and representatives disclaim all liability for any inaccuracies and omissions contained in these materials. All opinions and estimates constitute Sapphire Star's judgement as of the date of the creation of these materials and are subject to change without notice. Information presented is not intended to be an offer of solicitation for the sale or purchase of any securities, investments involve risk and are not guaranteed. Any decision to purchase securities mentioned herein must consider existing public information on such security. Projections contained herein are based on a variety of estimates and assumptions and there can be no assurance that the assumptions made in connection with the projections will prove accurate, and actual results may differ materially. Past performance is not indicative of future results.

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