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 3rd quarter of 2021 was rough on small cap stocks with the Russell 2000 Index falling (4.23%) and the Russell 2000 Growth Index falling (5.55%) The Sapphire Star Small Cap strategy weathered this rough volatility well, gaining an impressive +0.23% during the quarter. On a year-to-date basis, the Yorktown Small Cap Fund is up +16.98% while the Russell 2000 and Russell 2000 Growth indexes are up +12.22% and +2.54% respectively. At the end of the 3rd quarter, the finance, electronic technology, and the health technology sectors comprised the top three sectors in the portfolio, while the portfolio was least weighted in utilities, process industries, and the miscellaneous sectors. From a holding's perspective Repligen Corp. was the top performer gaining +44.77%, followed by LPL Financial +16.33%, and Novanta Inc. +14.65%. Intellia Therapeutics which was down (17.15%) digested some of the gains experienced in the preceding 6 months. Plug Power (25.30%) and Stitch Fix (33.75%) rounded out the three holdings that hurt portfolio performance the most. From an attribution analysis viewpoint, both stock selection and sector allocation aided relative portfolio performance with stock selection doing most of the heavy lifting. Holdings in the health technology, electronic technology, and finance sectors aided the portfolio the most. The three sectors that hindered relative performance included retail trade, consumer non-durables and energy minerals. The strong showing during the quarter is chiefly attributable to stand out performance experienced in July and August as September negative volatility effected nearly all sectors and securities.

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

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

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 well during mid-cycle stages as many opportunities still exist. 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 Small 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

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

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