

Why allocate to US Small Caps now? [Click here](#)

Allocating to US Small Caps the Smart way, [click here](#) for the presentation

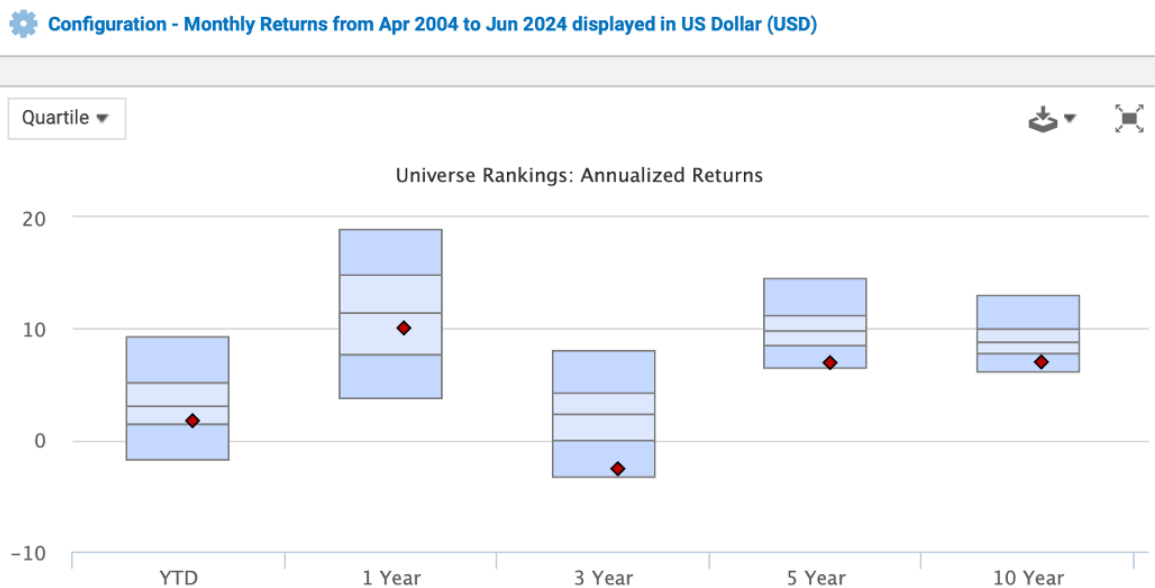
- 1) Why Active?
- 2) Why Growth and Value and not Core?
- 3) Why yearly rebalancing?
- 4) It gets way prettier than just better performance 😊

We have multiple institutional investors that allocate to our US Small Cap Value and Growth manager and yearly rebalance between the two, please scroll through the email below in just a few minutes to find out why.

1) Why Active?

- On a 20y basis 98% of active managers outperform the US small cap benchmark

- Also YtD, and on a 1, 3, 5 and 10y basis this is the case, see chart below

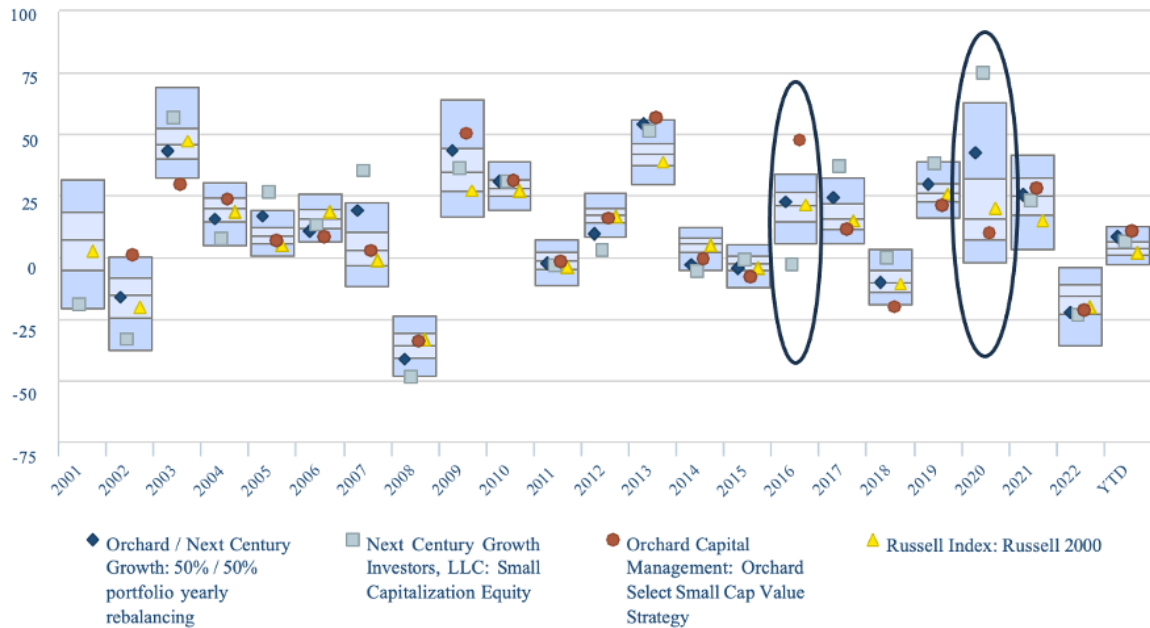


Data from Morningstar confirms:

" Looking at rolling three-year periods from 2005 to 2019, the average small-cap manager outperformed the Russell 2000 (the main small-cap benchmark) 86.7% of the time. Better still is that these managers managed to have an excess 1.5% return after fee/fund expenses. Better still were managers who focused on investment “styles.” Small-cap growth managers managed to beat their benchmarks 94% of the time, while small-cap value managers did so 91% of the time. Value managers managed to add an additional 2.5% in returns after fees as well."

2) Why Growth and Value and not Core in US Small Caps?

1. The average US Small Cap Growth and Value manager has more outperformance than the average Core manager (23y data eVestment)
2. There are large performance differences per calendar year between Growth and Value (see circles below), rebalancing between a Growth and Value manager can add value



[Universe: eVestment US Small Cap Equity](#)

Results displayed in USD using Spot Rate (SR).

3) Why rebalance yearly?

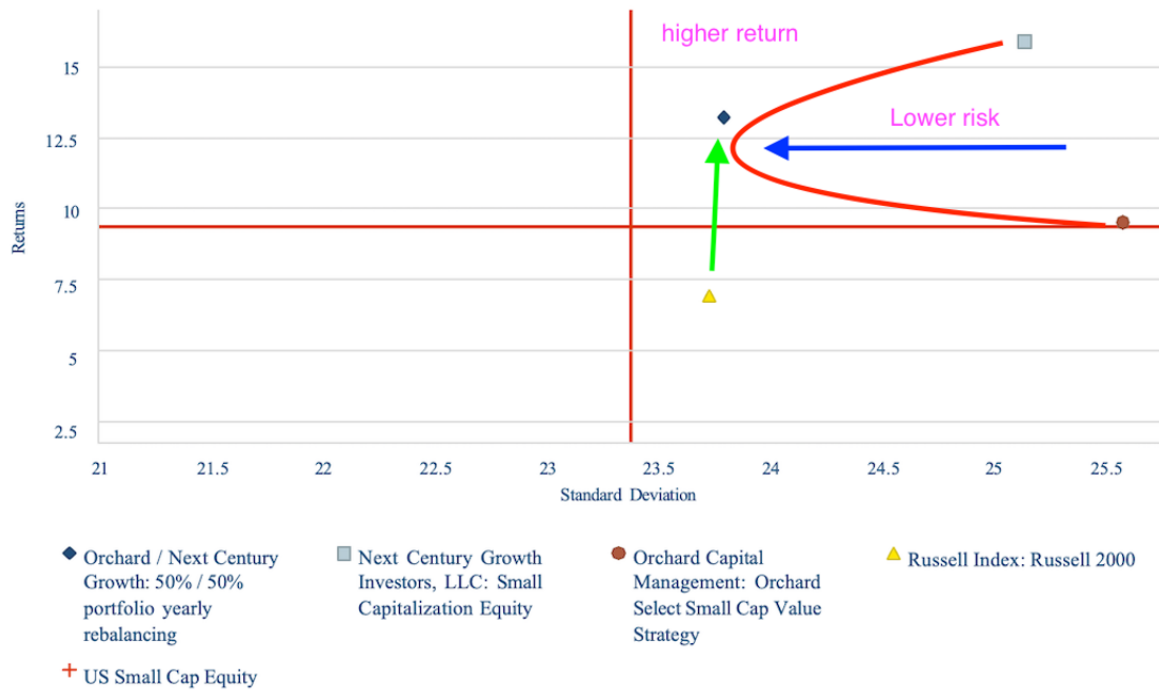
- The US Small Cap Core (R2000) benchmark returned 7% annualised during the last 10y
- The 50% NCG / 50% Orchard portfolio returned 10.93% annualised during the last 10y
- The yearly rebalanced 50% NCG / 50% Orchard portfolio returned 11.59% annualised during the last 10y -> 4.59% better than the benchmark

Statistic	NCG US Small Cap Growth	Orchard US Small Cap Value	Russell 2000	50% NCG/ 50% Orchard	50% NCG/ 50% Orchard yearly rebalancing
YTD	6.16%	10.55%	1.73%	8.36%	8.35%
1 Year Return	0.02%	15.81%	10.06%	7.92%	7.58%
3 Year Return	-1.23%	0.27%	-2.58%	-0.48%	-0.49%
5 Year Return	15.90%	9.52%	6.94%	12.71%	13.24%
7 Year Return	18.16%	6.37%	6.85%	12.27%	12.71%
10 Year Return	13.99%	7.86%	7.00%	10.93%	11.59%
Returns since 2001	9.78%	10.40%	7.64%	10.09%	10.68%

Gross of fee Monthly Returns from Jul 2001 to Jun 2024 displayed in US Dollar (USD)

4) It get's way prettier than just better performance:

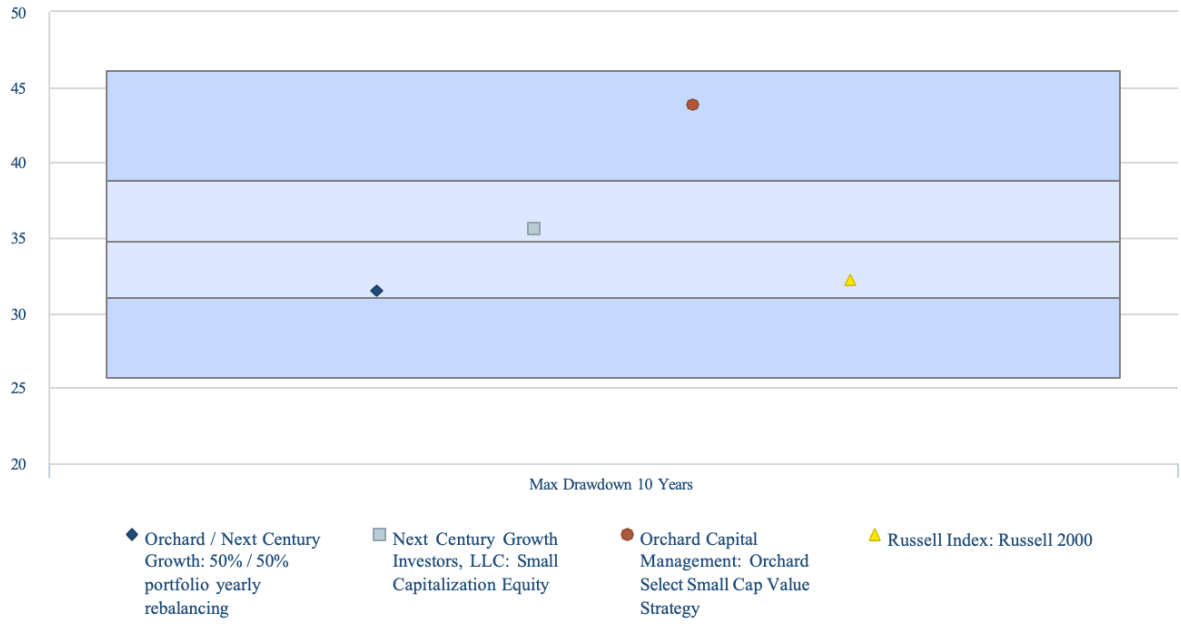
Risk/return scatter 5 years (and yes you see it correct; 6.3% annualised outperformance the last 5 years)



[Universe: eVestment US Small Cap Equity](#)

Results displayed in USD using Spot Rate (SR).

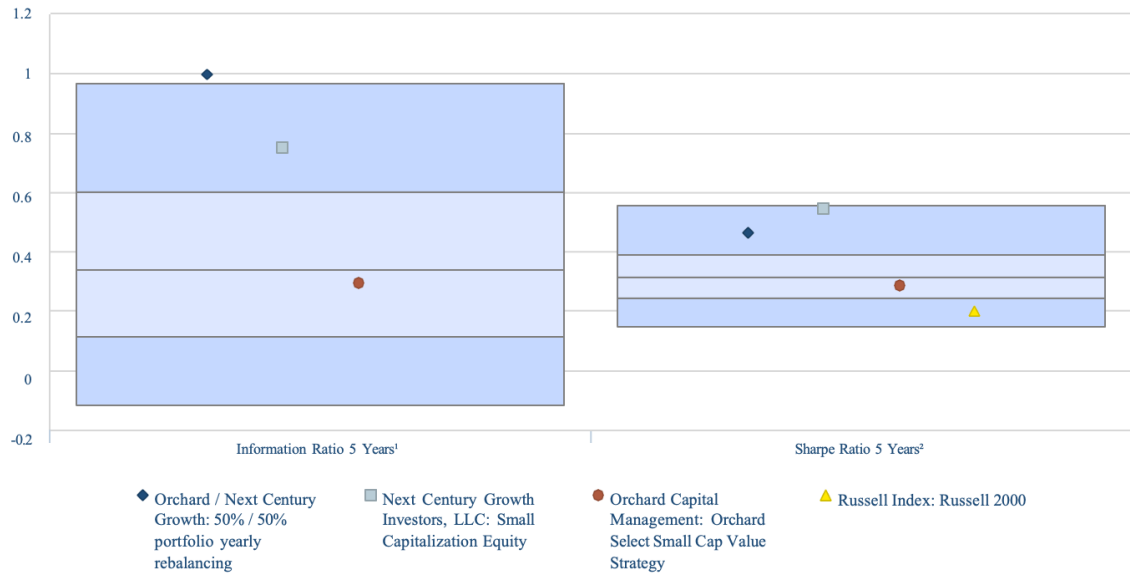
Max Drawdown 10 years



[Universe: eVestment US Small Cap Equity](#)

Results displayed in USD using Spot Rate (SR).

Information Ratio and Sharpe Ratio 5 years



[Universe: eVestment US Small Cap Equity](#)

Results displayed in USD using Spot Rate (SR).

¹Russell 2000; ²FTSE 3-Month T-Bill

Want to see more related charts? [Click here](#)

Want to know more about our selected managers?

Founder and Portfolio Manager Tom Press of NCG US Small cap Growth; 25y track with 5% annualized outperformance over the R2000 Growth BM is in Europe in September, reply to meet. On **Oct 7th** at 15.00h we interview the team, click to subscribe [Next Century Growth US Small Cap Growth Equities](#)

CIO and Portfolio Manager Blake Harper of Orchard US Small Cap Value; 23y track record with 2.5% annualized outperformance over the R2000 Value BM, ahead 11% YtD is in Europe in October, reply to meet. View last weeks interview, click [Replay](#)

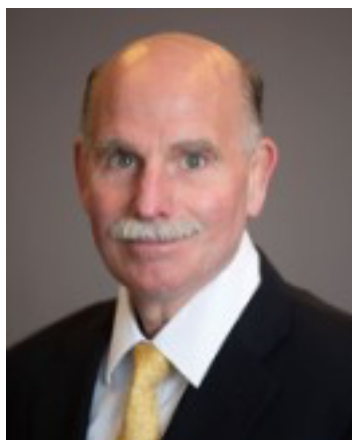
Next Century Growth US Small Cap Growth Equities

The Next Century Growth (NCG) US Small Cap Growth Strategy is a high conviction, high alpha generating strategy that seeks to invest in the fastest growing and highest quality small cap companies in America. A daily liquid Art. 8 UCITS fund with an AUM of USD 81.1 million is available. ISIN code: [IE000TY23GV5](#)

As per Q2, 2024 the Next Century Growth US Small Cap Growth Equity Strategy has an **annualised outperformance of 4.98%** over the Russell 2000 Growth index, outperforming 88% of peers according to eVestment since inception in 1999. Next Century Growth is an independent investment firm with a highly experienced investment team located in Minneapolis.

- [Asset Class & Strategy Summary](#)
- [Presentation](#)
- [Peer comparison](#)
- [Factsheet](#)
- [Standard RfP](#)
- [Morningstar](#)
- [ESG Policy](#)
- [Sustainability Related Disclosures](#)
- [Replay Latest Online Update](#)

Chairman, CEO, Portfolio Manager and Partner Thomas Press



[Bio: Thomas Press of Next Century Growth Investors](#)

Orchard US Small Cap Value Equities

The Orchard US Small Cap Value strategy is a high conviction, high alpha generating strategy that identifies companies that trade at a significant discount to where they should trade at and have one or multiple catalyst to unleash this intrinsic value. A daily liquid Art. 8 UCITS fund with an AUM of USD 356 million (one of the largest in its category) is available. ISIN code: [**IE00BL0L0092**](#)

As per Q2, 2024 the Orchard US Small Cap Value Equity strategy has an **annualized outperformance of 2.54%** over the Russell 2000 Value index since inception in 2001. Orchard Capital Management is a research-driven value investment manager solely focused on small cap value investing. As an independent employee owned boutique based in Chicago they deliver superior returns through proprietary research and a disciplined process. Long term US small cap value is the best performing segment of US Equities.

- [Asset Class & Strategy Summary](#)
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- [Standard RfP](#)
- [Morningstar](#)
- [Orchard's approach to ESG](#)
- [Sustainability Related Disclosures](#)
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Founder and CIO Blake Harper

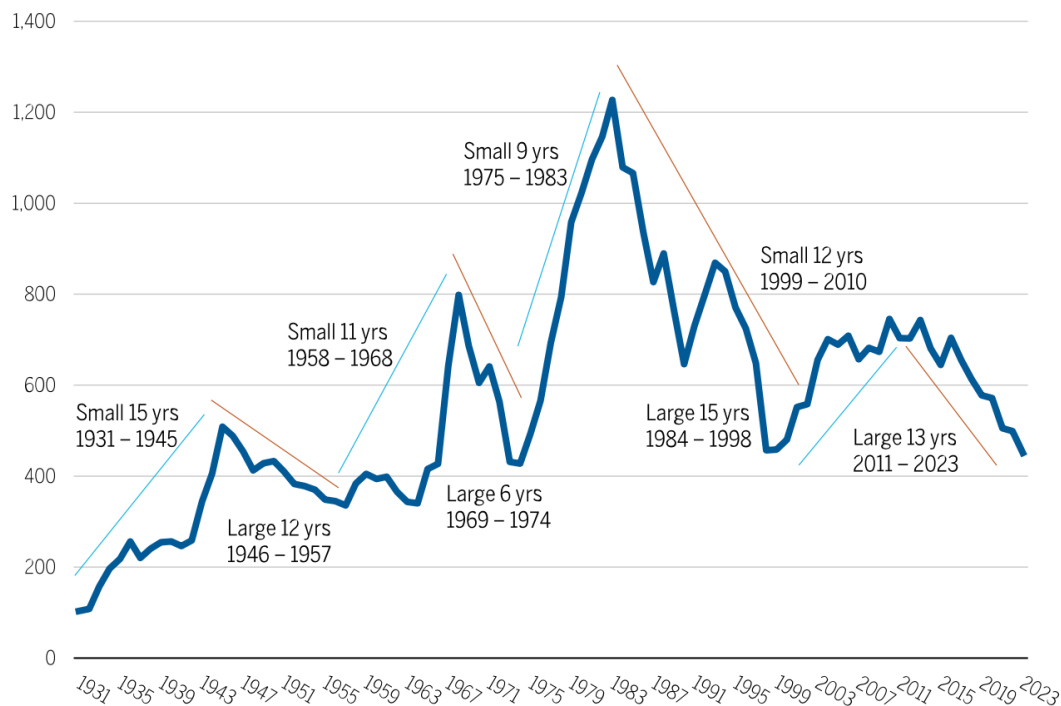


[Bio: Blake Harper of Orchard Capital Management](#)

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The large cap outperformance cycle lasted longer than average

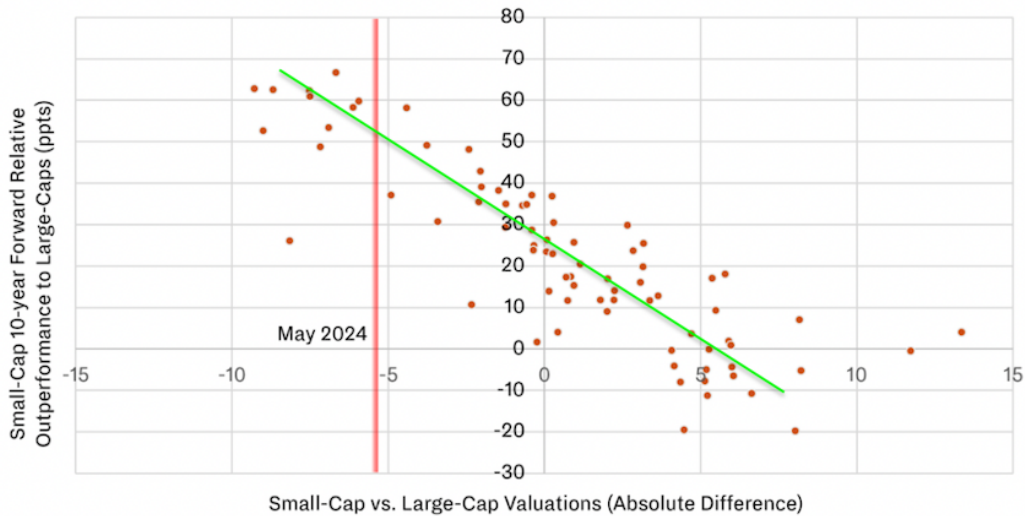


Source: Wellington Management | Relative strength line indexed at 100 at the start of 1931. For illustrative purposes only. Small-cap stocks (Russell 2000 Index) vs large-cap stocks (Russell 1000 Index) for years 1979 to 2023. The dark blue line shows the cumulative average annual outperformance (or underperformance) of small-cap stocks over large-cap stocks in basis points. The light blue and light orange lines indicate periods where one was dominant over the other.

But July 11th marks the end of a 14 year period of Small Cap under performance vs Large Caps. Since then Small Caps are ahead of the Nasdaq with 13.5%



History teaches us that given the current P/E discount, next 10y outperformance of small caps over large caps could be around 50%



Relative performance calculated using Kenneth French's Small Minus Big (SMB) performance data of US equities. Data available at https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. Relative Valuations calculated by S&P 600 12-Month Forward P/E premium/discount relative to S&P 500. Data from March 1995 to March 2014.

A long period of underperformance was historically followed by strong outperformance, see red arrow

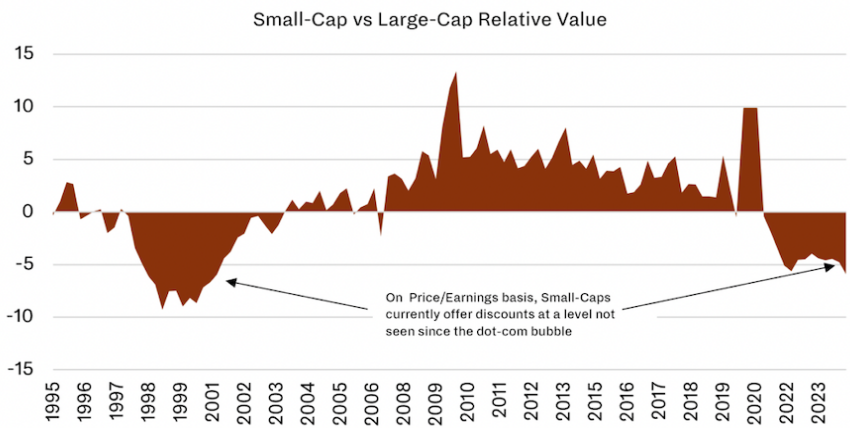
Period	Length (In Years)	Small Caps		Large Caps		Relative Performance		1Yr Subs Relative Perf		3Yr Subs Relative Perf		5Yr Subs Relative Perf	
		Cumulative	Annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative	Annualized
Jan. 1926 to May 1932	6.3	-81.8	-23.6	-52.6	-11.1	-61.6	-14.0	82.2	82.2	65.5	18.3	144.7	19.6
Feb. 1937 to June 1939	2.3	-48.1	-24.5	-27.7	-13.0	-28.2	-13.2	8.8	8.8	26.2	8.1	81.2	12.6
May 1946 to June 1949	3.1	-35.4	-13.2	-12.6	-4.3	-26.1	-9.3	2.7	2.7	1.6	0.5	-4.6	-0.9
Dec. 1968 to Dec. 1973	5.0	-41.5	-10.2	11.8	2.3	-47.7	-12.2	2.2	2.2	51.1	14.8	112.2	16.2
July 1983 to Oct. 1990	7.3	35.9	4.3	149.3	13.4	-45.5	-8.0	22.2	22.2	40.6	12.0	27.0	4.9
Feb. 1994 to Mar. 1999	5.1	79.1	12.1	219.0	25.6	-43.9	-10.7	23.9	23.9	63.9	17.9	98.3	14.7
Feb. 2014 to Jan. 2016	1.9	-14.4	-7.8	7.3	3.7	-20.2	-11.1	13.3	13.3	5.2	1.7	7.8	1.5
Dec. 2016 to Sept. 23?	6.7	49.8	6.2	119.8	12.4	-31.9	-5.5	?	?	?	?	?	?
Average (Excludes Current)	4.4	-15.2	-9.0	42.1	2.4	-39.0	-11.2	22.2	22.2	36.3	10.5	66.7	9.8

Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies



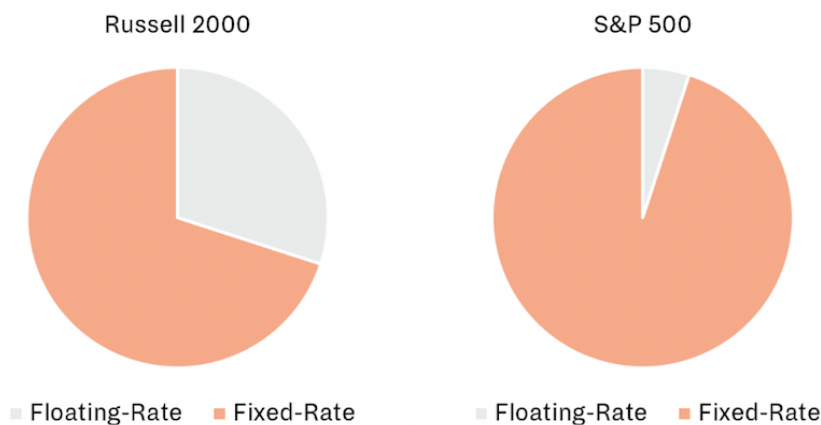
It has been 20 years since an entry moment was this attractive..

Timing is hard, but longer term odds seem in your favour.



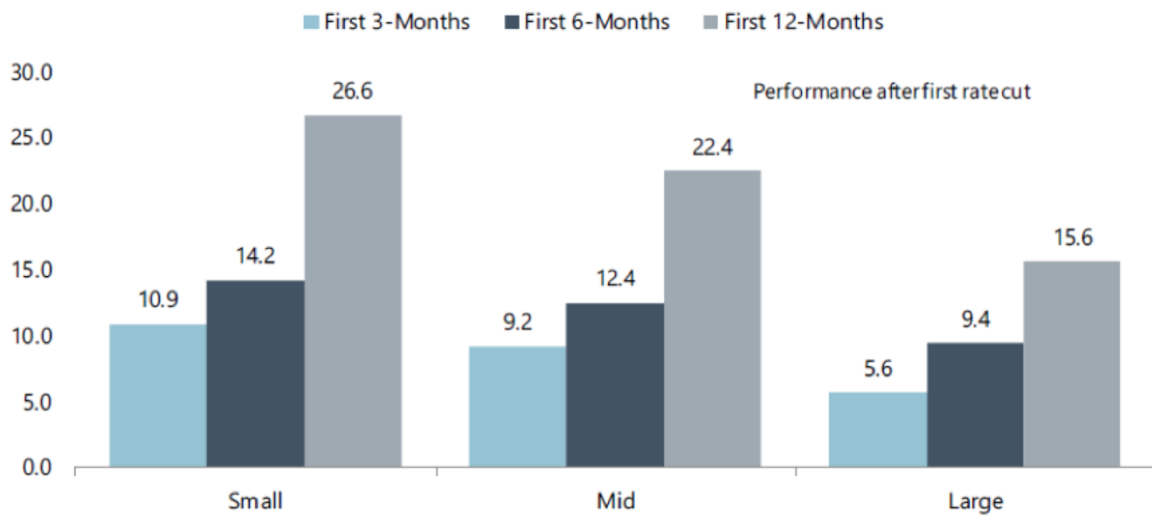
S&P 600 12-Month Forward P/E premium/discount relative to S&P 500

Rate cuts will have a much larger impact on US Small Caps



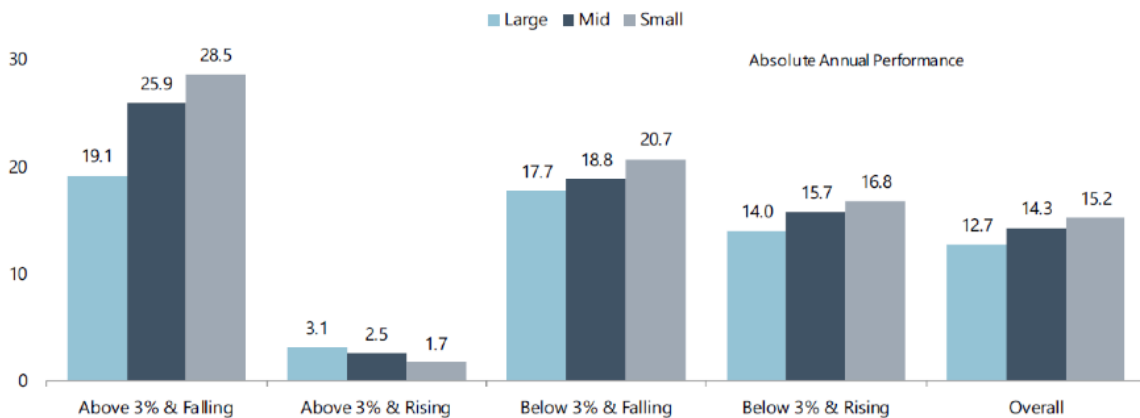
Goldman Sachs Asset Management

In the 12 months after the 1st FED cut US Small Caps outperformed Large Caps with 11%



Note: Used Fed Funds from 1954 until 1963, then used the Discount rate from 1963 until 1994 and Fed Funds rate after that.
 Source: Federal Reserve Board; Haver Analytics; Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

Performance across CPI environments



Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies
 *Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Small Caps historically start outperforming as soon as a recession starts

Performance Around Recessions (last 6 recessions since 1980)

Relative Performance of Russell 2000 vs S&P 500 Index Around Recessions
 (Average Relative Performance for Last 6 Recessions Starting From 1980 to 2023, Indices Rebased to 100 at Start of Recession)



Sources: Bloomberg, NBER, William Blair Equity Research

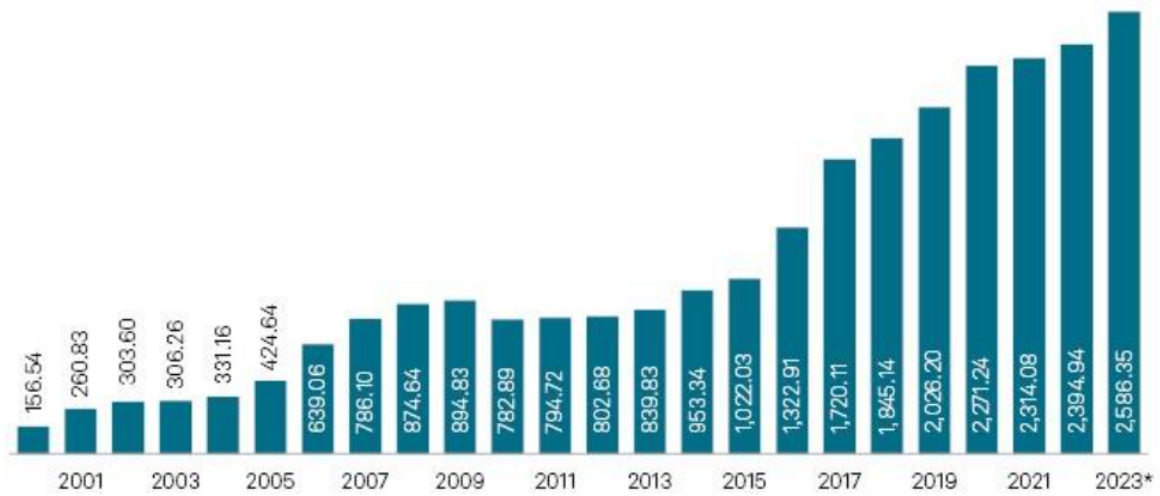
Past performance is not an indicator of future performance.

*Small represented by Russell 2000, Large by S&P 500

If the public markets don't re-rate Small Cap Stocks, the Private markets surely will!

Dry powder in Private Equity is about almost the size of the entire US Small cap market

Global private equity dry powder trend, 2000-2023 (\$B)



Data compiled Dec. 1, 2023.

* Year to date through Dec. 1, 2023.

Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2023.

Dry powder data is supplemented by Preqin.

Source: S&P Global Market Intelligence.

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