We're in one of the longest periods of US Small Cap underperformance.

History indicates a long period of strong outperformance typically follows, see red arrow.

	Length	Small Caps		Large Caps		Relative Performance		1Yr Subs Relative Perf		3Yr Subs Relative Perf		5Yr Subs Relative Perf	
Period	**(In Years)**	**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

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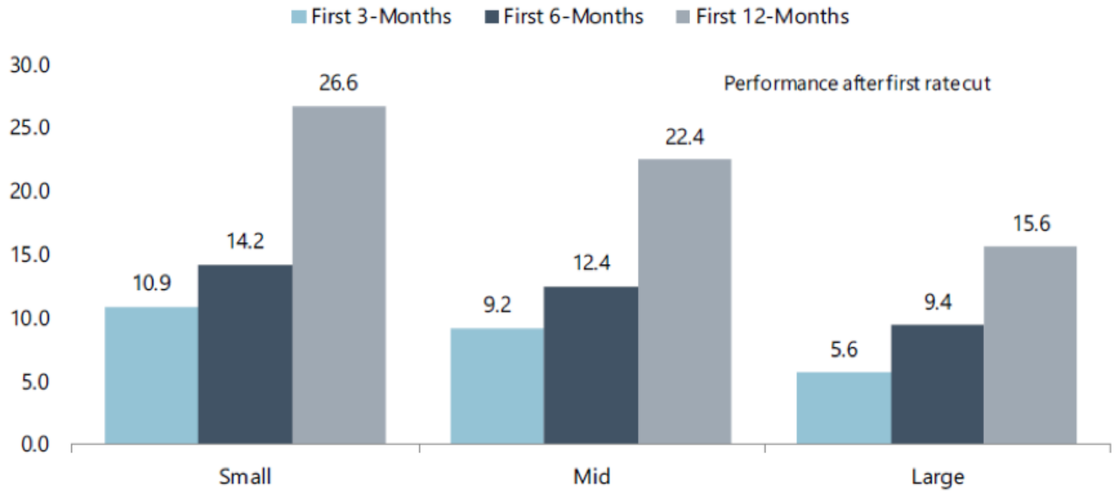
Performance after first Fed interest rate cut



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

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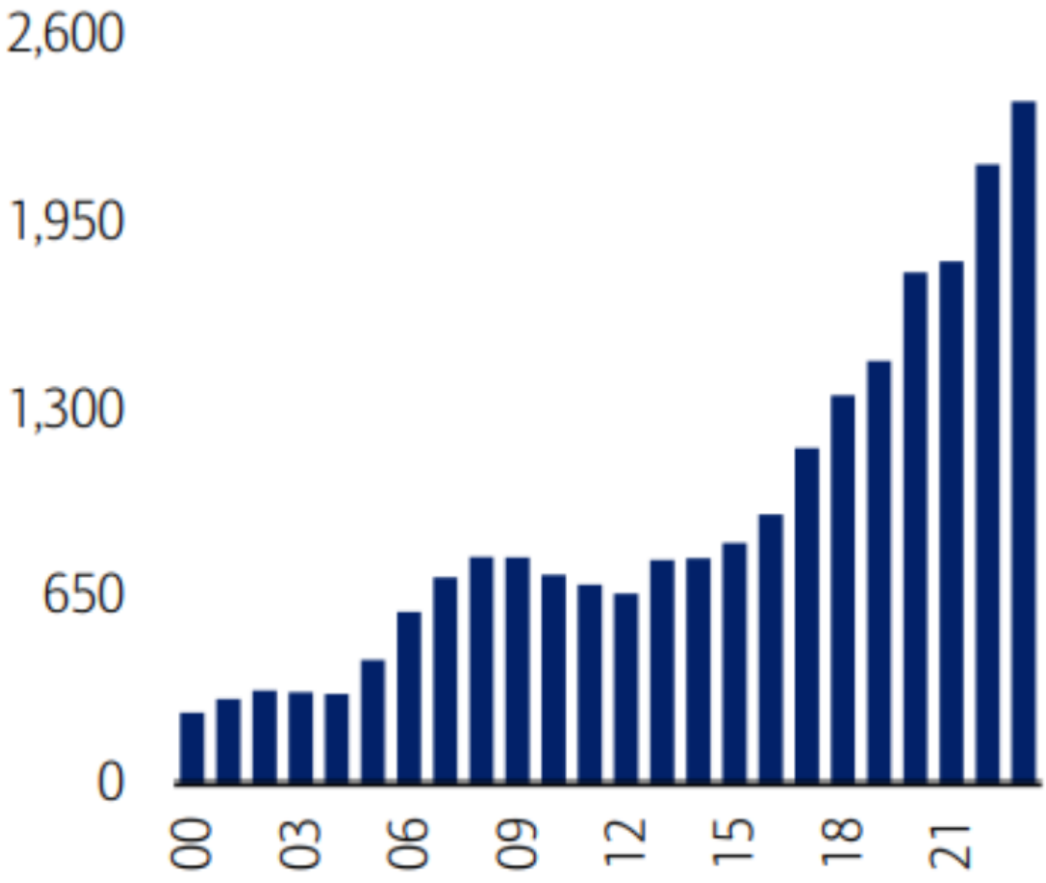
If the public markets don't re-rate Small Cap Stocks,..then the Private markets surely will!

Exhibit 9: Private equity funds: record dry powder

Private equities' total dry powder ($B) (2000-2023 as of 9/12/2023)

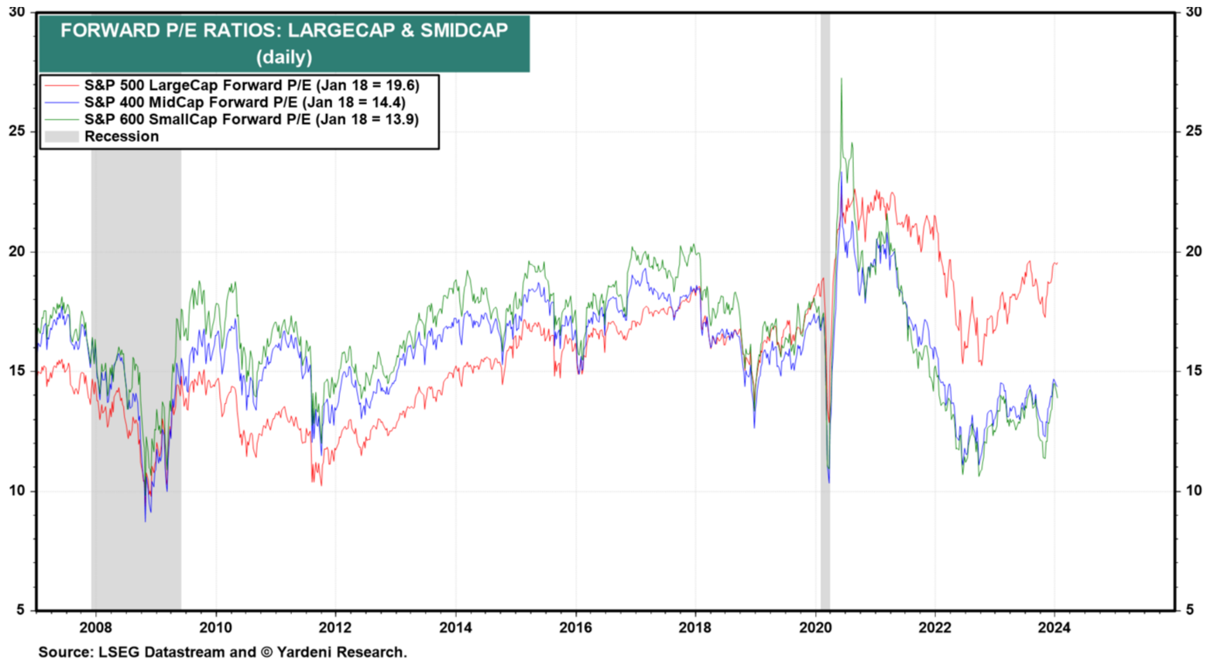


Source: Preqin, BofA Global Research

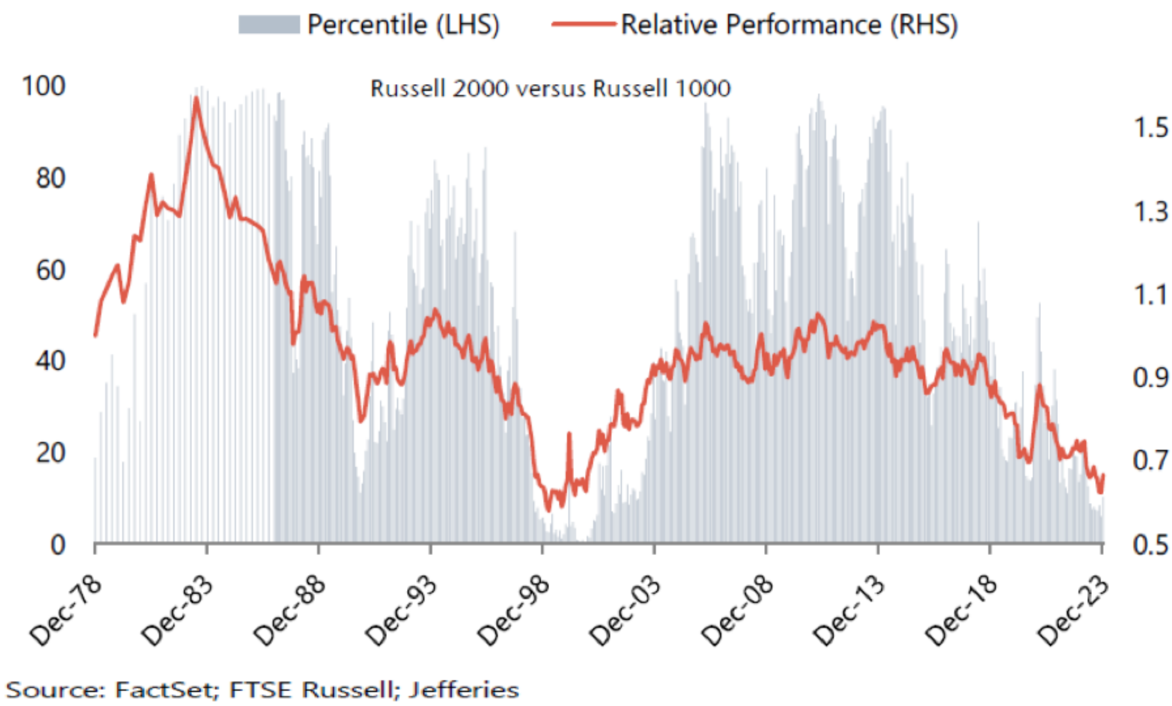
BofA GLOBAL RESEARCH

US Small Cap forward P/E is below long term averages and well below that of US Large Cap Equities

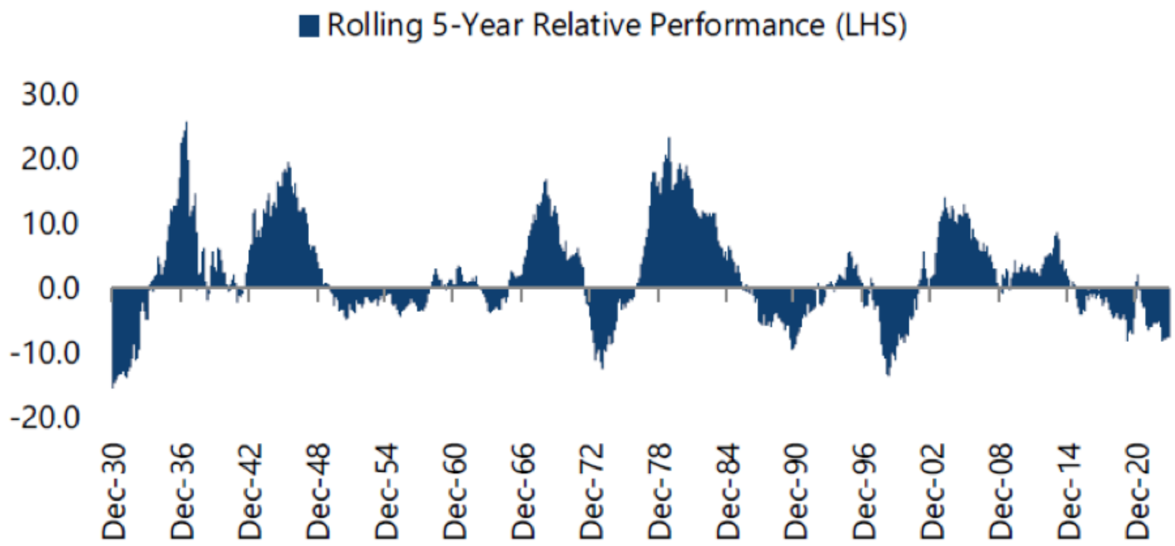
Historically this is the other way round.



Relative Valuation and Relative Performance of Russell 2000 vs Russell 1000, were at extreme levels.



Rolling 5-year Relative Performance of Russell 2000 vs Russell 1000



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

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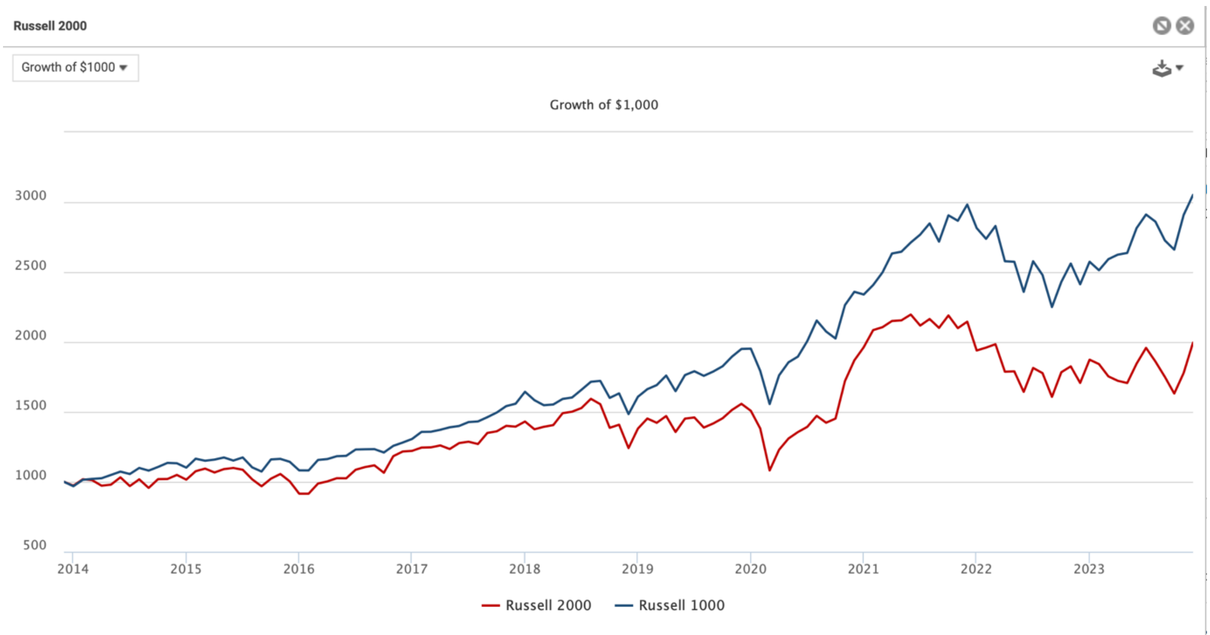
10y return US Large Cap (R1000) versus US Small Cap (R2000)

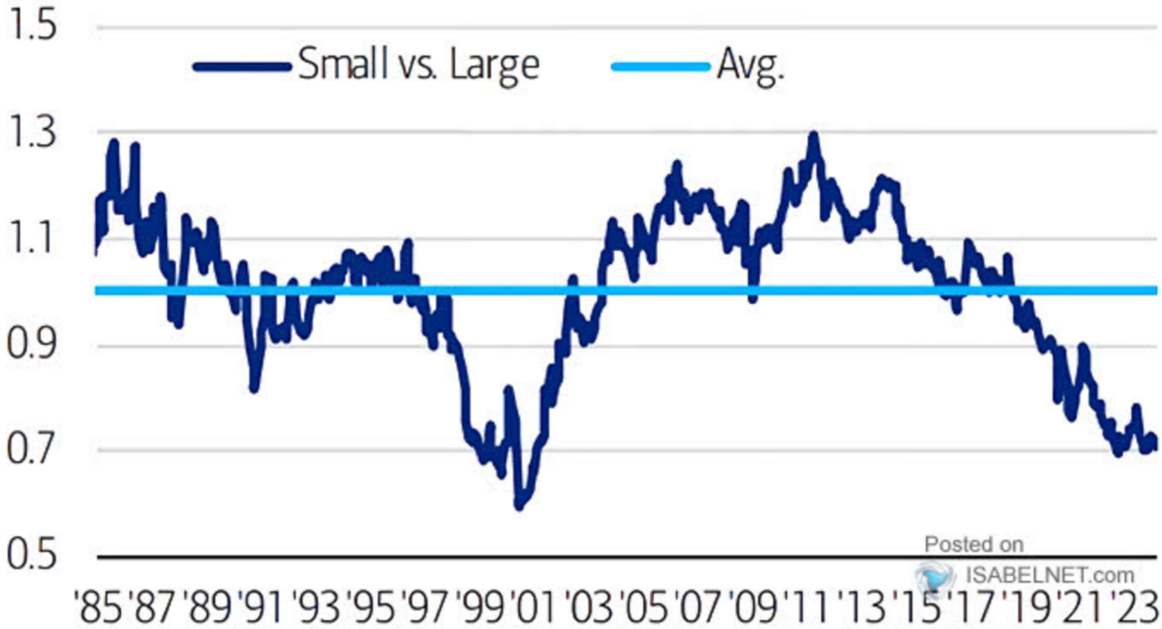
Large Caps outperformed Small Caps with > 100%.



Relative Forward P/E Russell 2000 vs Russell 1000 - 1985-31-10-2023

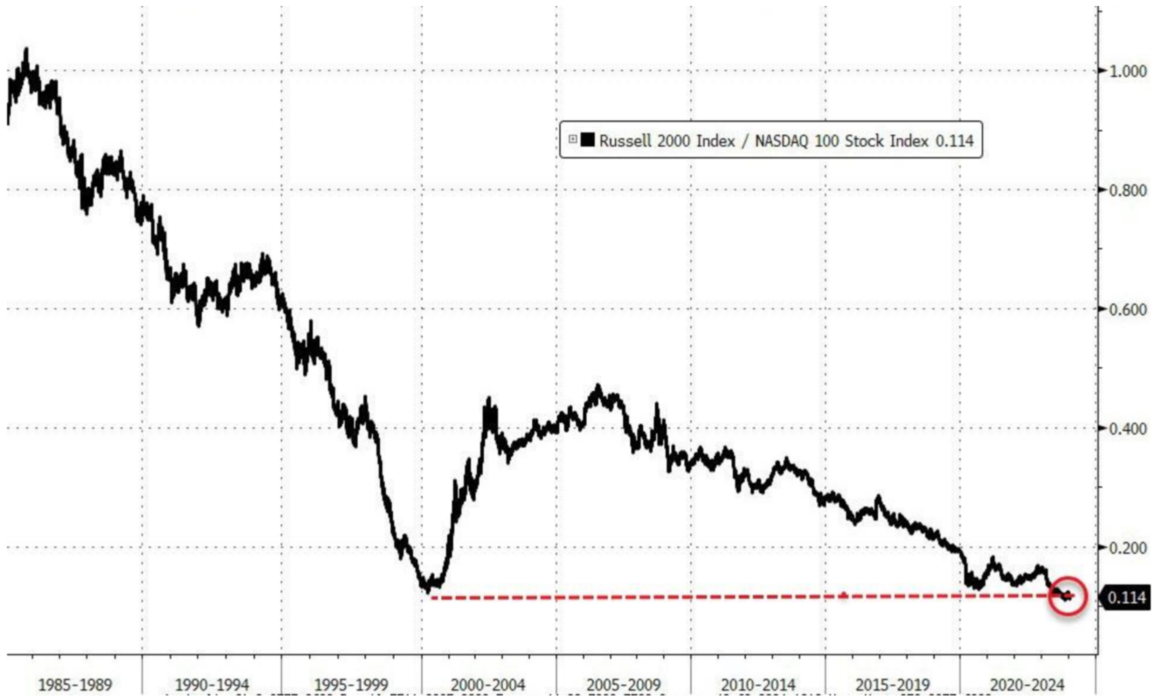
Exhibit 2: Small caps remain historically cheap vs large caps

Relative Forward P/E: Russell 2000 vs Russell 1000, 1985-10/31/2023

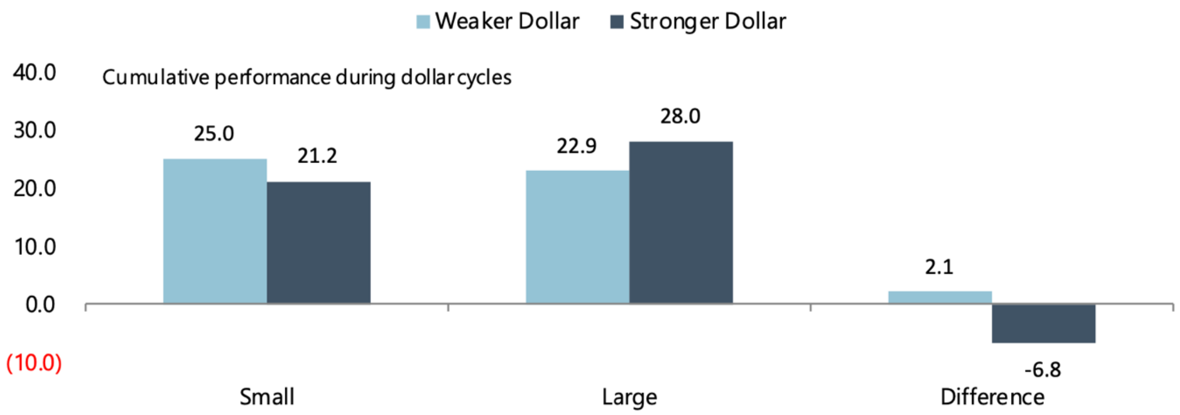


Source: BofA US Equity & Quant Strategy, FactSet

Small Caps/ Nasdaq



Performance in weaker USD environment



Source: FactSet; FTSE Russell; Jefferies

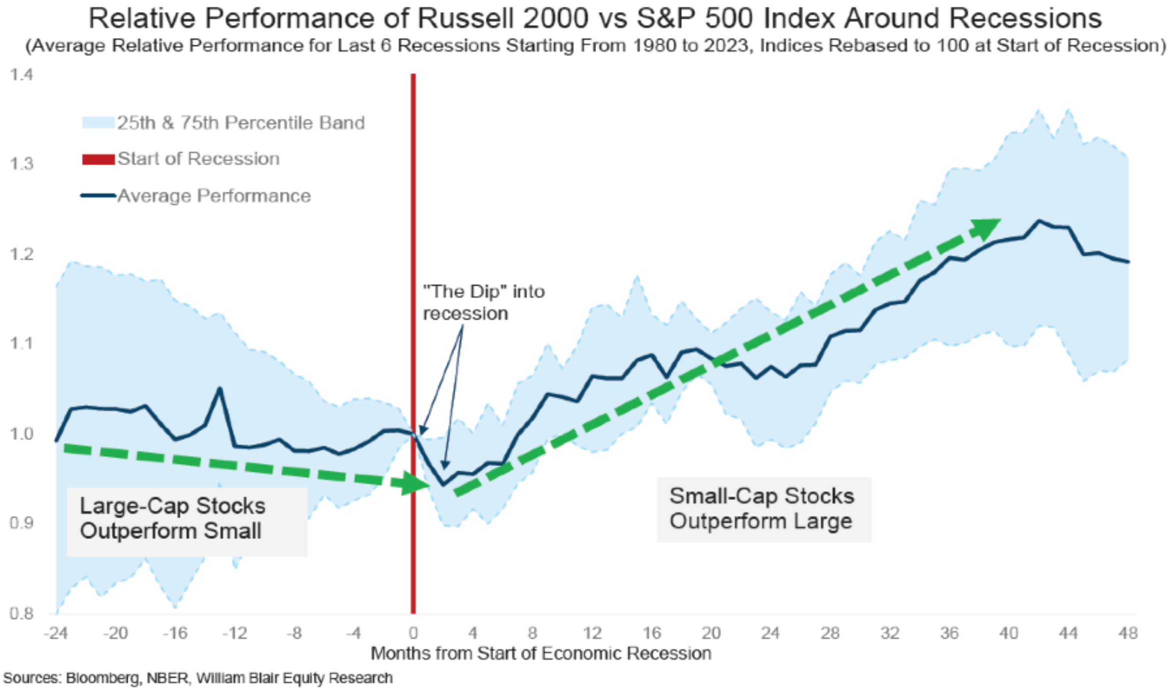
Performance across CPI environments

	Annual Return			3Y Returns Annualized			5Y Returns Annualized		
	Large	Mid	Small	Large	Mid	Small	Large	Mid	Small
CPI >3	8.5	10.2	10.4	9.0	11.4	11.6	10.3	12.7	13.0
CPI <3	16.1	17.5	19.0	13.7	14.2	14.9	12.0	12.6	13.1
CPI >3, Rising This Year	3.1	2.5	1.7	8.9	11.1	10.9	8.7	11.0	11.1
CPI >3, Declining This Year	**19.1**	**25.9**	**28.5**	**8.5**	**11.3**	**12.5**	**12.4**	**15.3**	**16.3**
CPI <3, Rising This Year	14.0	15.7	16.8	12.5	13.5	14.9	11.4	12.4	13.5
CPI <3, Declining This Year	17.7	18.8	20.7	14.6	14.7	14.8	12.5	12.7	12.7
Overall	**12.7**	**14.3**	**15.2**	**11.6**	**12.9**	**13.4**	**11.2**	**12.6**	**13.0**

Source: FactSet; FTSE Russell; 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 Cap Performance Around Recessions (last 6 recessions since 1980)



Past performance is not an indicator of future performance.
*Small represented by Russell 2000, Large by S&P 500

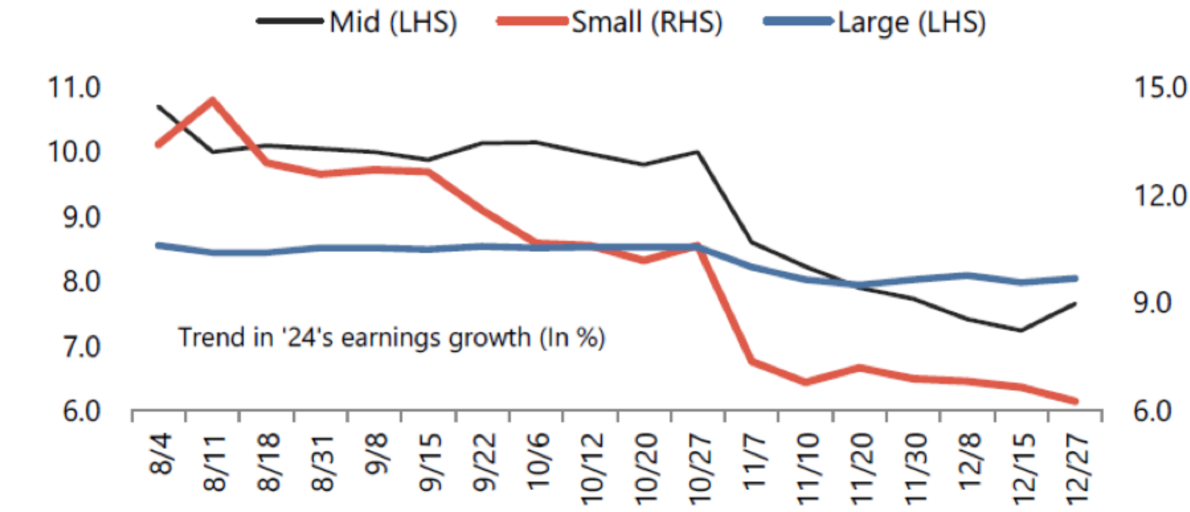
Earnings have corrected:

2023 and 2024 Earnings Growth Estimates (as of 12/28/2023)

	Earnings Growth (%)								
				Small Caps		Mid Caps		Large Caps	
Year	Small	Mid	Large	Growth	Value	Growth	Value	Growth	Value
2023P	-9.1	-9.4	-0.5	-6.7	-8.1	-7.9	-11.1	5.4	-4.2
2024P	6.3	7.7	9.7	10.0	5.8	10.2	6.5	14.2	7.2

Source: FactSet; Standard & Poor's; Jefferies
*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Trends in 2024 Earnings Growth Estimates



Source: FactSet; Standard & Poor's; Jefferies

*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

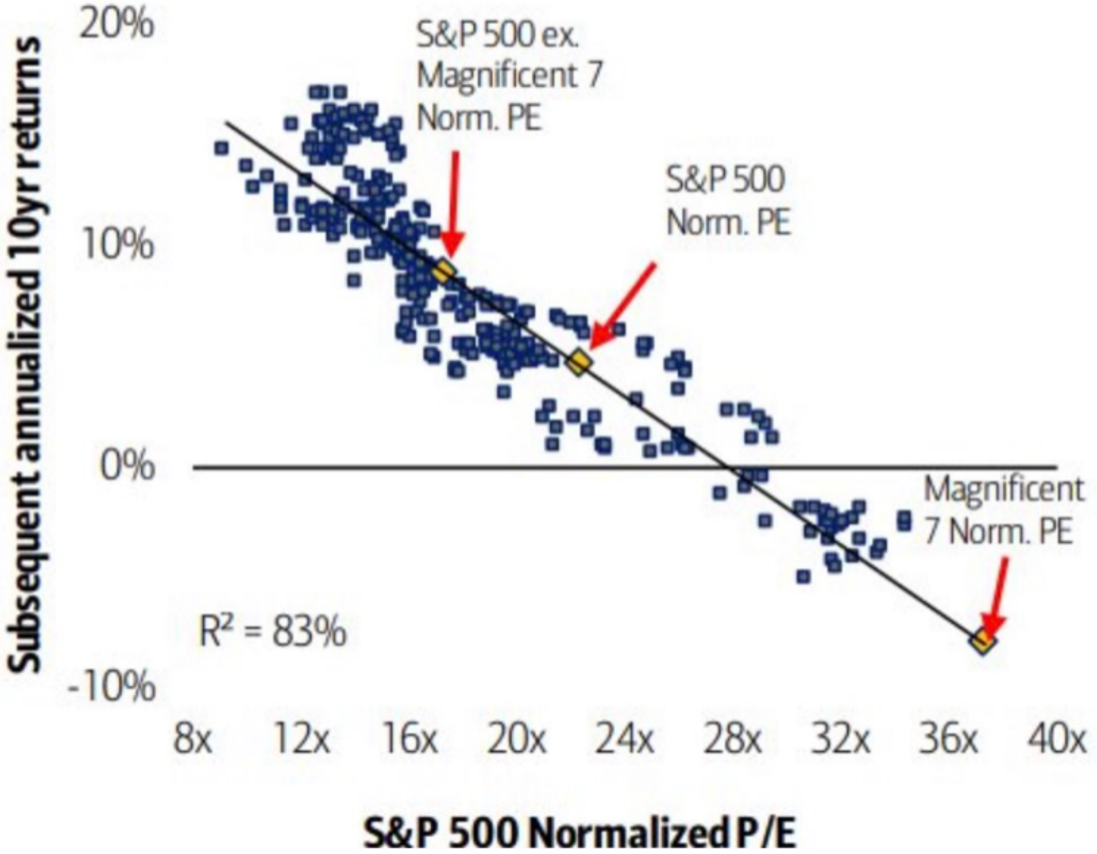
Other related charts:

Expected returns next decade for Magnificent 7 do not look good at all.

Time to sell those and buy things that are cheap?

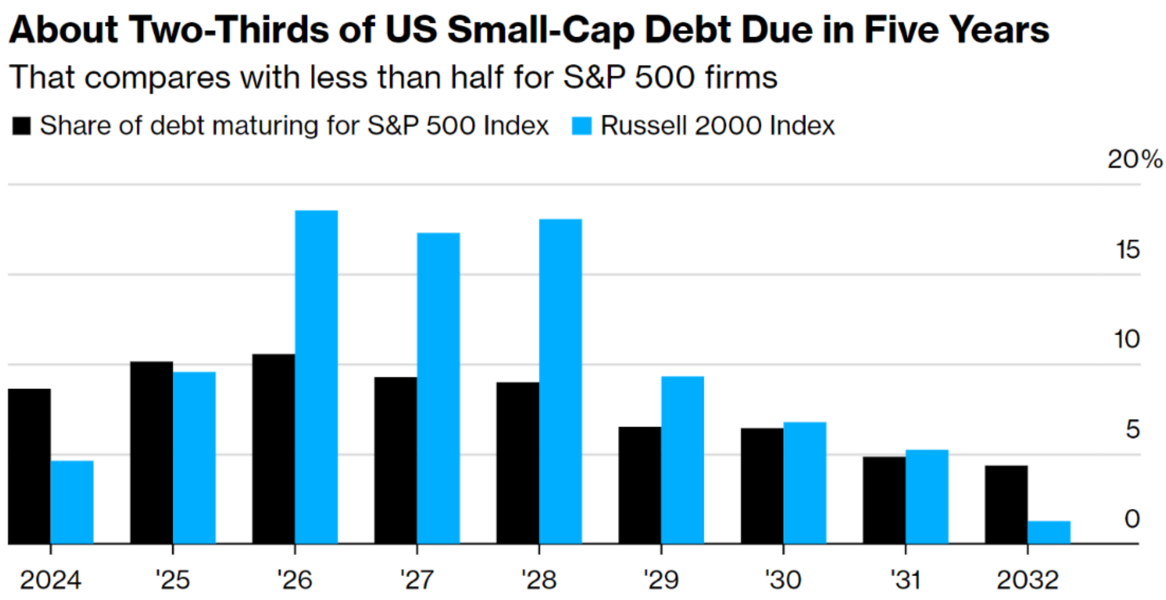
Exhibit 31: Valuation explains 80% of returns over the next decade

S&P 500 normalized P/E vs. subsequent annualized returns (since 1987, forecasts as of 11/17/23)



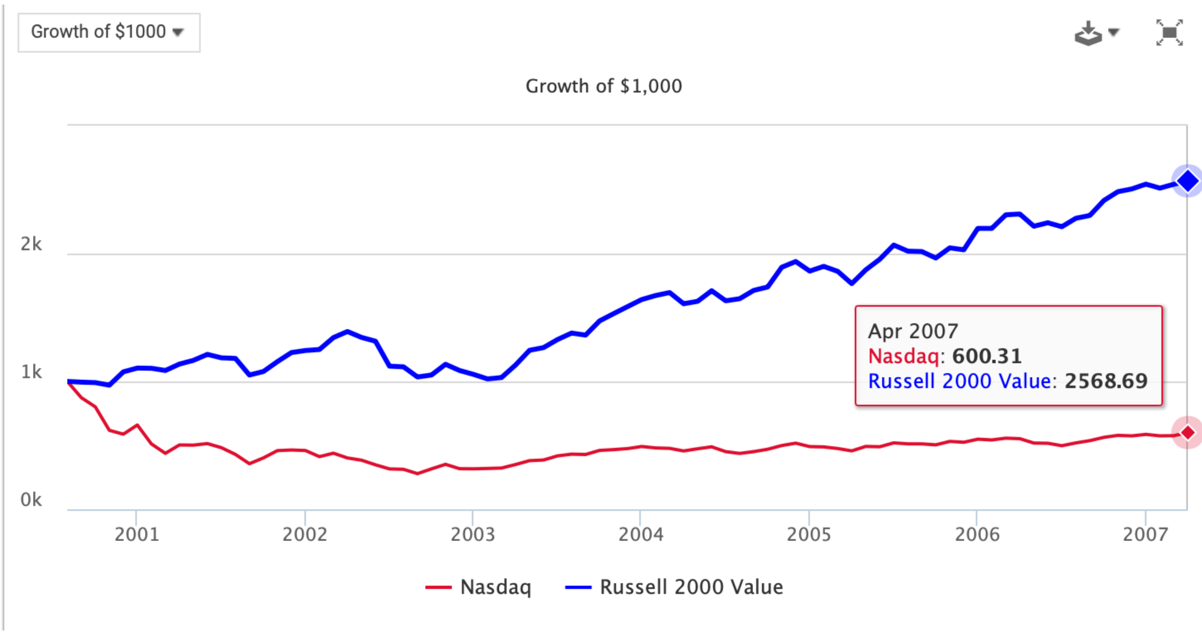
Small Caps have pushed out financing needs, but are typically financed shorter term- have a higher rate sensitivity

One of the reasons small caps tend to do well in FED easing periods



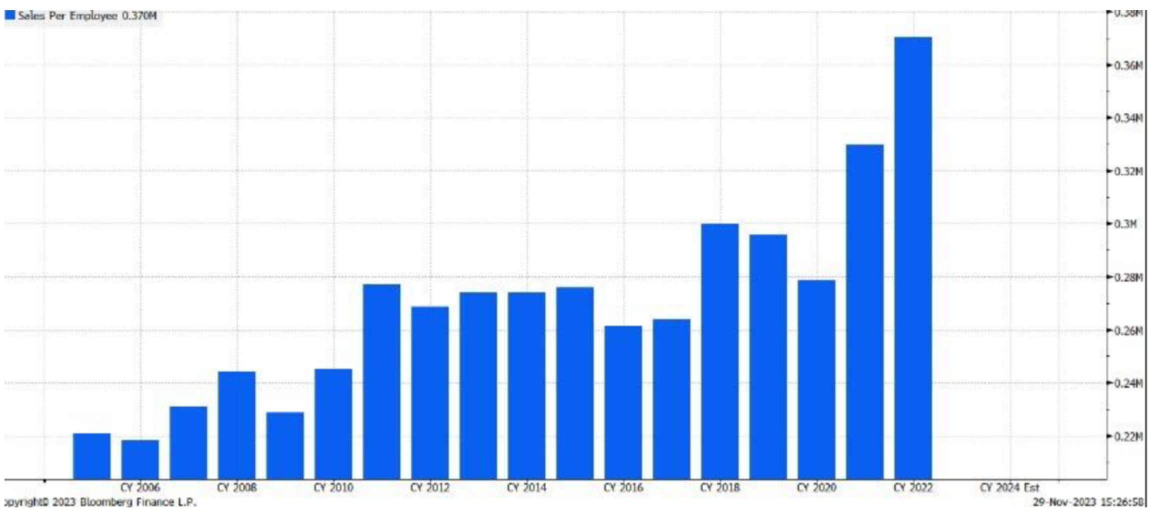
US Small Cap Value worst performer last decade

Last time valuation of Nasdaq versus Small Cap Value got this extreme, this is what happened next...



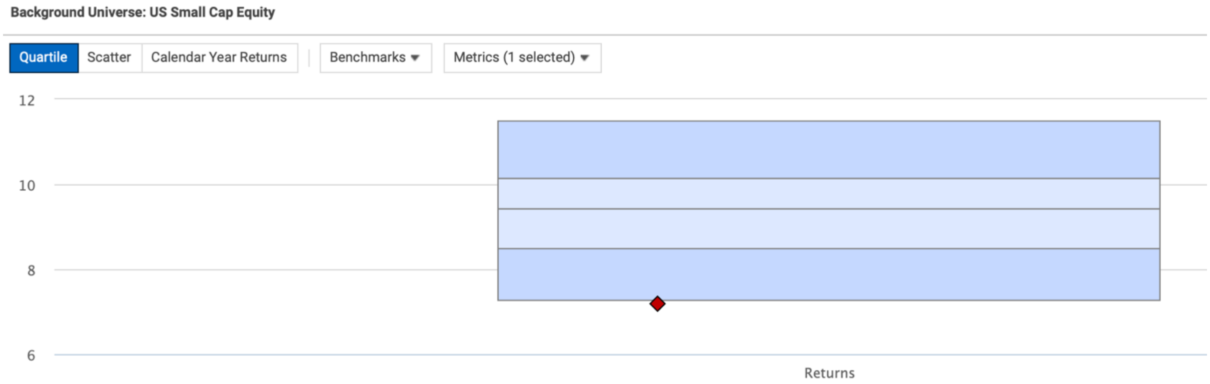
Nasdaq down 40%, Small value up 157%, despite rising rates from 2005-2007

Sales per employee in US Small Caps hit record highs..



Allocate to active!

Almost all active managers beat the Small Cap Benchmark (red square) longer term (22 year chart)



Lack of IPO's and impact of Private Equity on US Small Caps; Is the Small Cap Premium still there??

1) Does the Small Cap premium still exist?

Orchard:
The simple answer is yes, but the longer answer is more nuanced and I'll try to provide an answer as to why we have confidence. The SC premium is a returns premium. The returns premium has occurred partly because smaller companies tend to grow and grow earnings faster over the long run. Over the long run small caps have outperformed and they have outperformed primarily due to cash returns to shareholders (either in dividends or buybacks) rather than valuation (even a 50% increase valuation has a modest impact on the long term composition of returns). However, this total shareholder return (TSR) has been below large caps for some time (13 years), which has driven the lack of a Small Cap premium.

The question is why and is the trend likely to continue. The answer is that the trend should end or reverse because current underperformance is valuation and not earnings growth driven. Earnings have grown nicely, capital allocation has generally improved and relative valuations are unlikely to get worse (or more likely will get better). We have a much more detailed break-down coming in one of our future write-ups, but the reason for our confidence is twofold: a) True Small Cap universe earnings have grown over the same time while valuation shrank and b) Small companies are getting higher valuations, **but not in the US public market (yet):**

a) Aggregate earnings per share for the Russell 2000 grew annualized 8.2% (157%) from 2010-2022 while valuation shrank (even after accounting for unprofitable companies in the universe). Other areas of the US equity market saw their multiples expand substantially over the same period.
b) While valuation shrank in the public markets, valuation in Private equity for similar companies has growth substantially over a similar period. The most important (though not only) difference between the two markets (relative investor flows were very positive in one and very negative in the other)

We see a disconnect in that large is relatively more valuable for the same earnings and private is relatively more valuable for the same size. With earnings (and the effective use of the earnings to grow or return cash) as the primary long term driver of TSR, we see the premium as quite safe and the likelihood of a further shift in further relative mispricing as substantially lower. Should the disconnect persist in the public market, the private equity market is now of a size that it can acquire more cheaply in the public market than in the private market, which will support public small cap valuations through acquisition premiums.

Next Century Growth:
It currently does not. Due to relative underperformance by small caps over the past few years, US large caps actually trade at a premium despite their slower growth rates. Historically, this is an unusual occurrence that does not sustain for long. Entering 2024, small cap valuations v. large caps were at the 10th percentile on a historical basis (0 being cheapest and 100 being most expensive). Our guess is small caps will begin to outperform even if the economy slows and the market is choppy this year, and will rally on an absolute and relative basis when the economy accelerates.

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2) How do you Small Cap investors view the development that small caps are going public later and later? and going first to PE before going public?

Orchard:
This is a phenomenon that has been occurring on some level over the last 20 years, but especially over the last 10 years. It has several implications and I divide it between Tech/Software and "Everything Else." The division between the two is largely because the trend materially impacts the Software and Technology universe while all other categories have operated more normally. The Private Equity industry has bought and IPO'd companies outside of Tech/Software at a fairly normal rate. There has been net consolidation since 2000 (so more acquisitions than IPOs), but industrials, consumer and other industries have a regular amount of activity.

Generally speaking, the trend has been that private equity investment dollars have grown even faster than private equity investments, creating record "dry powder" (see below) and more demand for all companies (public or private), pushing up private valuations. This has the effect of making the same sized public companies more attractive on valuation, likely increasing the probability of further consolidation (and future acquisition/acquisition premiums for small cap owners). This area is where most of small cap value resides. We will have a more detailed review of this in the coming months as part of our series, by the way. The trend in Software/Tech is truly a little different. Whereas in the 90s, many small tech companies would use an IPO as an opportunity for liquidity or growth capital, going public at $200M-$2B market caps, the trend has been that they do an additional 1-3 rounds of private financing and exit at $2-10B. This is partly because Growth Private Equity as an asset class has grown massively and because successful software companies have much larger markets and lower fixed cost of investment (driving earlier cash flow visibility). The "hassle" of being public for those companies is deferred. Many of these companies entirely miss the small cap market and when they do, they are going at very high valuations.

Generally, we have always been sensitive to valuations of these companies (as the winners are huge wins but there are far more losers in the long run) and we have focused on tech and software niches or the very few that drop back into our category but that have defensible and attractive long-term prospects. You will see that we are underweight tech partly for this reason. However, we have found technology leadership hiding in payments (found in financials and consumer), in fintech, in consumer (adtech and machine-learning and AI-driven online retail), and in real-estate (edge computing data centers) where the same secular trends are driving outsize growth and profitability. You just need to dig a bit more to find them. We are also lucky in that while many of the leading tech names miss our sector now, the remaining overpriced ones tend to sit in mid-cap growth (and a few at the edges of small cap growth), whereas we typically are playing in small value and mispriced small core areas. I'm happy to provide examples because we still have a rich universe of "new economy beneficiaries" in our opportunities set.

Next Century Growth:
Historically small caps have had venture capital or PE funding prior to IPO, so that's not a big change. It's true that some have elected to stay private longer or indefinitely and do more PE funding. We believe this is cyclical and was driven by a flood of money into PE firms over the past several years. It created a situation where more companies had access to PE funding and at more favorable (some would say aggressive) valuations than in the past. Our view is this is leading to suboptimal returns for the PE fund investors which will lead to a contraction of available funds, making the IPO route relatively more attractive and the pendulum will swing back in the future. Our sense is that PE investment returns peaked in 2021 and have been plummeting since then, but on a lag to the real time mark-to-market you get in public equities. We expect the volume of high quality small cap IPOs will be increasing over the coming years.

Upcoming Online Updates in which the topics above will be discussed:

- **30 January** at 15.00 CET, **Letko Brosseau Emerging Markets Equity Update**
- **1 February** at 16.00 CET, **Strategic income Management US High Yield Opportunities Update**
- **6 February** at 15.00 CET, **Orchard US Small Cap Value Equities Update**
- **5 March** at 15.00 CET, **Next Century Growth US Small Cap Growth Equities Update**
- **19 March** at 15.00 CET, **VanEck Emerging Market Debt Update**
- **21 March** at 16.00 CET, **DSM US and Global Large Cap Growth Update**
- **18 April** at 15.00 CET, **Coho ESG US Large Cap Equities Update**

Click here for the replay of the Candoris online Macro outlook event.

Why US Small Cap Value and Growth and not Core?

1) Long term return data shows that US Small Cap Growth + US Small Cap Value managers perform better than US Small Cap Core managers.
2) Yearly rebalancing between Value and Growth adds value and reduces volatility.

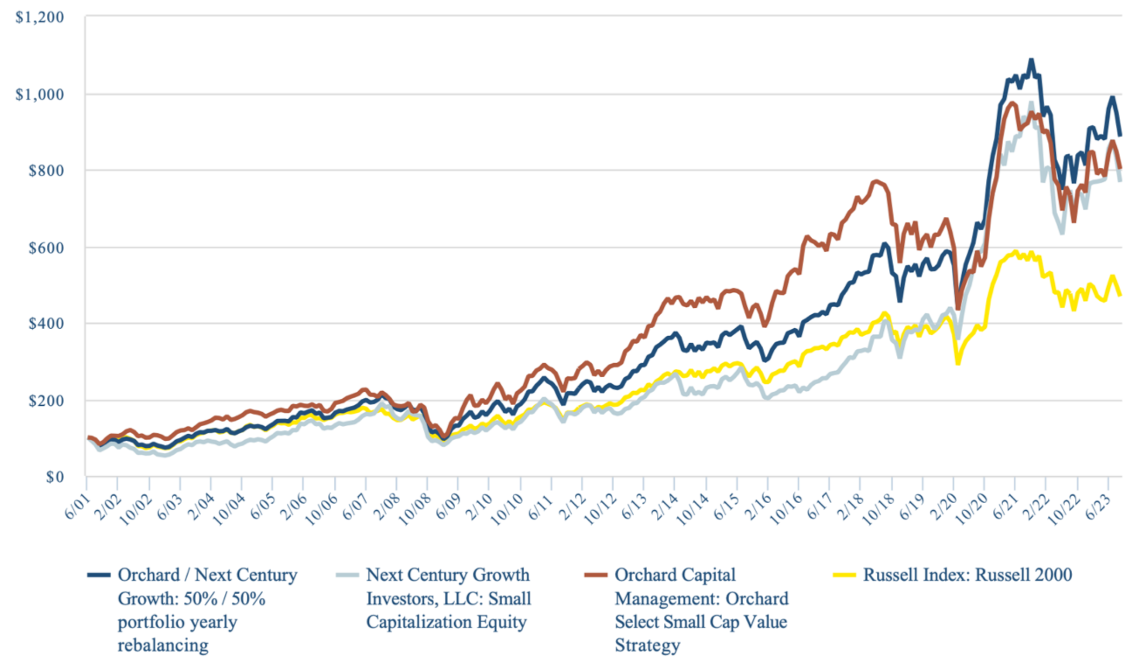
When you look at for example the last 10 years, NCG US Small Cap Growth returned +12.35% annualized, Orchard US Small Cap Value returned +6.71% (growth did better than value). Together without rebalancing, this is 19.06%/2= 9.53%. With yearly rebalancing you get to 10.19%, so 0.66% annualized more due to rebalancing yearly on January 1st.

Firm Name		YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Orchard / Next Century Growth	50% / 50% portfolio yearly rebalancing	9.25	15.96	11.20	8.28	12.81	10.19	10.30
Next Century Growth Investors, LLC	Small Capitalization Equity	10.24	11.04	9.45	13.97	18.37	12.35	9.59
Orchard Capital Management	Orchard Select Small Cap Value Strategy	8.27	21.28	13.58	1.63	5.79	6.71	9.80
Russell Index	Russell 2000	2.54	8.93	7.16	2.40	6.62	6.65	7.19

Performance in the table above is annualized and in %

All data is gross of fee.

Long term performance Orchard, NCG and the combined portfolio with yearly rebalancing vs benchmark



Results displayed in USD using Spot Rate (SR).

Next Century Growth US Small Cap Growth Equities

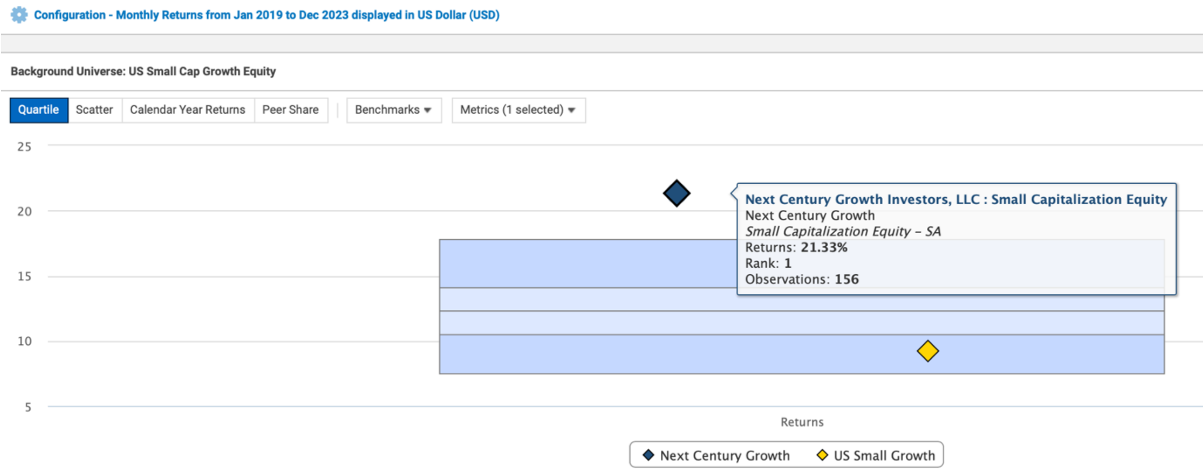
The Next Century Growth (NCG) US Small Cap Growth Strategy is a high conviction, high alpha generating strategy that seeks to invest in the fastest growing and highest quality small cap companies in America. A daily liquid Art. 8 UCITS fund with an AUM of USD 61 million is available. ISIN code: **IE000TY23GV5**

As per Q4, 2023 the Next Century Growth US Small Cap Growth Equity Strategy has an **annualised outperformance of 5.01%** over the Russell 2000 Growth index, outperforming 83% 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.

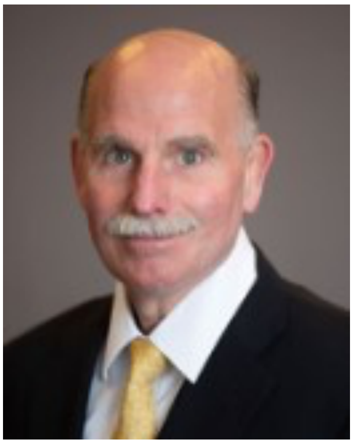
- Asset Class & Strategy Summary
- Presentation

- [Peer comparison]
- [Factsheet]
- [Standard RfP]
- [Morningstar]
- [ESG Policy]
- [Sustainability Related Disclosures]
- [Replay Latest Online Update]

Next Century Growth strategy beats all US Small Cap Growth peers on a 5 year basis



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 312 million (one of the largest in its category) is available. ISIN code: **IE00BL0L0092**

As per Q4, 2023 the Orchard US Small Cap Value Equity strategy has an **annualized outperformance of 2.07%** 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
- Presentation
- Peer comparison
- Factsheet
- Standard RfP
- Morningstar
- Orchard's approach to ESG
- Sustainability Related Disclosures
- Replay Latest Online Update

Founder and CIO Blake Harper

Bio: Blake Harper of Orchard Capital Management

Best regards,

Martijn van Vliet

Director Business Development Candoris
T +31(0)707441393
M +31(0)637009338
E martijn@candoris.nl
Koninginnegracht 46

2514AD The Hague
The Netherlands

Candoris Strategies: www.candoris.nl