FIERA CAPITAL

Quickfire

Debuting our All-Seasons Small-to-Mid Cap ("US SMID") Equities Strategy in Asia

With strong batting averages stretching over two decades, the portfolio team behind Fiera's US small-to-mid cap strategy are no strangers to navigating market cycles. "The water is definitely choppier in the small- and mid-cap space, but it also offers tremendous opportunity to access exciting growth," says Matthew Navins, Client Portfolio Manager. Stephen Malone, Institutional Portfolio Manager, agrees.

> Addressing volatility is the cornerstone of our all-seasons portfolio construction. Investors in Asia – at all tiers – are seeking exposure in this relatively misunderstood asset class, and we're here to deliver.

Could you explain the mechanics of your strategy?

Fiera Capital's SMID-cap growth strategy (c. USD$6.1bn AUM, as at 31 March 2024) is designed to deliver significant capital appreciation over time, while also providing a measure of resiliency during market downturns. We describe this as an "all-seasons growth" investment methodology, incorporating a judicious mix of 60–90 stable growth and emerging growth companies to mitigate the cyclicality of risk-adjusted returns. This is in part why we have a two-decade track record of outperformance.

We believe maintaining that balance between stability and growth and tilting the portfolio in favour of secular trends we've identified can help create a smoother ride for our clients over time.

What is your investment style and methodology?

Our investment process combines bottom-up fundamental stock selection with top-down global secular trends. What this means in practice is that we are looking to invest in growth businesses in areas we have identified as having a compelling backdrop or possess industry dynamics supportive of structural growth.

In essence, we are looking for companies that provide innovative solutions to major technological, economic, demographic, regulatory and societal challenges, and prioritise targets that capitalise on and derive a competitive advantage from secular tailwinds. Our belief is ultimately revenue and earnings growth, profitability and cash generation are the keys to sustainable long-term growth of each company.

On a spectrum of investment styles, we would emphasise quality and growth. Over 85% of our alpha comes from the team's approach to stockpicking, where we look to weed out low-performing firms and screen for high-performing outliers that have investible indicators that we believe haven't been adequately researched or priced in. And when we've found them, we will take an appropriate position based on the risk/reward and our conviction level. As active managers, we are not afraid to look different than our benchmark. The active share, typically sits in the 85–95 range.

Why US small-to-mid cap equities?

US small-to-mid cap equities represent a sizable investment universe with more than 2,500 firms and a total market size of c. USD$6 trillion. Putting the variety of investible opportunities aside, the prize for active managers is that this pool exhibits deeper and more frequent market inefficiencies due to lower institutional ownership, less analyst coverage, lower information quality, information asymmetry, and less liquidity.

Exploiting these features of US SMID is the bedrock of our strategy. We've been compensated with competitive returns by selecting a diversified and complementary mix of smaller, rapidly growing securities, in combination with more mature and durable mid-caps.

What is your benchmark?

The Russell 2500 Growth Index.

How is an active management strategy advantaged in US small/mid-cap investing?

While investing in more well-known securities means active managers must be contrarian to outperform ETFs, the idiosyncratic nature of US small/mid-cap companies, how they are traded, and the overwhelming presence of "lemons" in amongst very few "plums," means indexes tend to capture a lot of dud companies. We've mentioned that there is a general tendency for small-to-mid cap equities in the US to be under-owned and under-researched – this is why. Active management helps to sift through and avoid the one-quarter to one-third of zombie companies in the Russell 2500 that do not have any earnings or particularly strong prospects for generating earnings down the road.

> "US small and mid-caps represent an excellent opportunity for investors seeking exposure to dynamic US companies beyond the highly-subscribed and analysed large cap market. Our rigorous research process and proven portfolio management team enable us to identify standout companies that are positioned for growth and pose attractive risk return levels across."

Can you give examples of types of companies you invest in?

We split the types of companies we invest in into "stable" and "emerging". "Stable" companies exhibit solid revenue and EPS growth; there is a consistency to that growth, and they likely have a demonstrated "moat" around their product IP. Management has also typically shown an ability to navigate through different market cycles. "Emerging" companies are those that are experiencing explosive revenue growth due to a disruptive technology, brand, medical treatment or device and are reinvesting that revenue for future growth.

Our investment approach does lean thematic. We like to invest in companies benefiting from secular trends we identify. We typically have meaningful exposure to areas that are levered to these trends from such as consumer discretionary, healthcare, and technology. We also find compelling opportunities in more mature sectors like financials and industrials. We don't apply a one-size fits all approach but as a whole we're seeking to build the portfolio around quality companies that have the necessary fundamentals to capitalise on today's transformative changes that will drive tomorrow's growth.

Why should investors be interested now?

Fiera's US SMID has achieved consistent outperformance on both an absolute and risk-adjusted basis, while delivering significant added value ranking in the top quartile in excess returns over the Russell 2500 Growth Index over a 5 to 10-year horizon. So on one level, US SMID is well-suited to all investors with a long-term perspective and a stomach for uncertainty looking for an addition to their portfolio with a track record of strong return payoffs.

US SMID may also complement pre-existing exposure to large-cap equities and other small/mid cap styles when quality is considered, through potential return enhancement, the expansion of a portfolio's efficient frontier, and diversification without necessarily attracting excessive additional risk.

And how will the US small/mid-cap market fare in the future?

From a macroeconomic perspective, the crowding out of US small/mid-caps in favour of the S&P 500's mega-cap stocks is a clear opportunity. Under-owned and under-researched, investors in the small-to-mid cap universe stand to benefit from a growing knowledge gap and the commonly held assumption that large companies will disproportionately benefit from structural trends. We see things differently: change provides opportunity and it is often the smaller companies that are on the right side of change.

Annualised performance of US SMID Cap Growth Strategy, as at 31 March 2024

	1Q24	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	7 Yrs	10 Yrs	SI[1]
SMID Cap Growth (Net)	8.10	28.74	6.06	4.96	23.05	14.29	13.80	10.89	9.47
Russell 2500 Growth Index	8.50	21.10	4.19	-0.82	16.29	9.38	10.55	9.54	6.40
Added Value, net	**-0.41**	**7.64**	**1.88**	**5.78**	**6.75**	**4.91**	**3.25**	**1.35**	**3.07**

Source: Fiera Capital. Inception date: 1 April 2000.

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss. Performance results include the reinvestment of dividends and interest. Dividends received from ADRs are included net of foreign withholding taxes. Trade date valuation is used for all portfolios within the composite. Use of time-weighted rates of return, valued monthly and geometrically linked. Gross performance results are presented before management fees, but after all trading commissions. Actual investor returns will vary and will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance includes all fees and expenses except custody fees and was calculated using the highest applicable annual management fee of 1%, applied monthly. Performance <1 year is not annualized.

[1] SI = Since Inception

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Version STRENG001