



A Little (More) Conversation on US SMID

Bringing a highly decorated
Fiera Capital strategy to
European investors

FIERA APEX TEAM

Less than 24 hours after AP called the outcome of the 2024 US Presidential Race, Fiera Capital convened its inaugural US small-to-mid-cap equities roundtable for investors in Europe. The event was the first in a series, since the Fiera Apex US Small-Mid Cap Growth Strategy (c. USD\$5.8bn AUM¹) was made available to professional investors on the continent in July of this year.

With all eyes on the election outcome, Rick Nino, Senior Advisor and host of the roundtable, was quick to set the result in a 'purple' context. *"Election years tend to be more favourable for US equities at-large,"* he said. *"And undoubtedly, foreign policy shifts factor into top-down analysis."* But, as it was put, *"strategies with solid batting averages are often successful over the long-term because they deliver results in all seasons, wherever skilled stock pickers can exploit market inefficiencies."*

Rick gave the floor to Matthew Navins, Client Portfolio Manager in the Apex team that manages the Fiera Apex US Small-Mid (SMID) Cap UCITS Fund. Originally based in Dayton Ohio, Matthew spoke to how the strategies' locale has shaped its unique approach to market analysis, amidst the 'core' of commonly overlooked smaller and mid-sized companies in the US. *"In Fiera, we saw growth and distribution,"* he said. *"At a global level, the company knows how to maximise the potential of highly differentiated investment strategies."*

Despite the historic outperformance of small-to-mid-cap equities relative to the S&P 500, investors in Europe are typically underweight US SMID. As Matthew explained, some reasons include 'patchy' analysis of small-to-mid-cap stocks, lower institutional ownership, as well as the favour placed on standard global benchmarks that obscure otherwise solid companies with durable earnings growth. This is in addition to the information asymmetry present in the selection of quality stocks across a universe of US small-to-mid-cap equities, where mid-caps – and to a greater degree small-cap stocks – are vastly under-researched.

1. AUM as at 30 September 2024.

At a base level, Fiera Capital's US SMID strategy is designed to deliver significant capital appreciation over time, while also providing a measure of resiliency during market downturns.

"We achieve this by combining small-cap with mid-cap exposure, to bring together the best of both worlds," explained Matthew. *"We've been compensated with competitive returns by selecting a diversified and complementary mix of smaller, rapidly growing securities, in combination with mid-caps that are fundamentally more stable."*

The benefit of this marriage, says Matthew, is best seen in the data. Take most long-term horizons, and the SMID cap benchmark outperforms with less risk relative to a pure small-cap benchmark. *"Unless you have an extraordinarily granular US allocation, the combination of small- and mid-cap stocks makes sense."*

In Matthew's perspective, active managers are the most well-equipped to meet latent demand for US SMID exposure. In his own words, *"there are a huge number of non-earning companies, and a handful of 'zombie' companies, and it is a skill to tease out those that are investible versus those that are on the precipice of being unable to pay their liabilities"*. Passive strategies expose investors *"to all the elements"*, including roughly 35% of companies on the Russell 2000 Small-Cap Index that have negative earnings.

On the reverse, when a winner is found, small-cap investors tend to sell their winners and recycle them. Matthew likens the ideal situation to a successful sports team like when the Boston Celtics organically grew its MVPs out of college and have a chance to be multi-year contenders for NBA championships. *"As a small-cap manager if you're forced to sell your best players just as they are hitting their stride, you'll be in a worse position than when you started. SMID offers the flexibility to hold onto your winners for a bit longer – you are not always forced to go back to the development leagues and rebuild the team."*

When quizzed on maintaining an adequate balance, Matthew took two perspectives. The first is in the parameters for deploying capital, where the team looks at the opportunity set of each individual company. The second is in the floor and ceiling caps. *"We don't own anything below US\$500m. And typically do not purchase anything that exceeds the high end of the universe which tends to be around US\$20bn."* Fiera's investment roll

includes stable growth stocks, which Matthew describes as 'mature, with quality attributes' and 'emerging' growth stocks at an earlier stage of their growth cycle.

But on the point of bottom-up analysis, Matthew was plain. *"We don't have a target for reinvesting capital. It's all different across sectors and we take a sector-specific approach focusing on capital allocation policies, corporate governance, growth, profit margins, and the drivers of revenue, sourcing opportunities from a single-stock perspective."*

Attendees asked about Fiera Apex's sell discipline, and countering behavioural biases that might inadvertently 'cap' the upside. Matthew spoke in detail about the importance of segmenting performance on a 12 month basis, activating review processes if a stock is consecutively underperforming – as well as parameters including position sizing and inter-portfolio diversification, with a caveat depending on the size of the company. *"This is where you have to be discerning between the emerging and stable stocks, accepting that the former are more likely to be volatile with a shorter leash to exit and avoid complacency."*

And on the separate question of secular exposure, Matthew captured the team's ethos as wanting to own companies in areas that are large and growing, rather than small and in decline. We attempt to avoid *"owning the best house in a bad neighbourhood"* said Matthew. Examples of emerging growth companies and industries of interest ranged from healthcare and pharmaceuticals, to tech, while stable growth companies could be *"a little more boring"*, including industrials, financials, and materials *"as long as they are leaders in these spaces with the propensity for strong cash generation and sustainable growth."*

In the context of European portfolios, both Rick and Matthew suggested that the Fiera Apex US Small-Mid Cap Growth Strategy could blend with existing large cap exposure to improve risk-adjusted returns. But in its own right, too, and for performance alone, the strategy excited for its access to the 'hidden gems' in a broad ecosystem of US innovation.

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