

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.

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



Investors are starting to chase a mean reversion now that Large Cap Growth versus Small Cap Growth performance has reached extreme levels

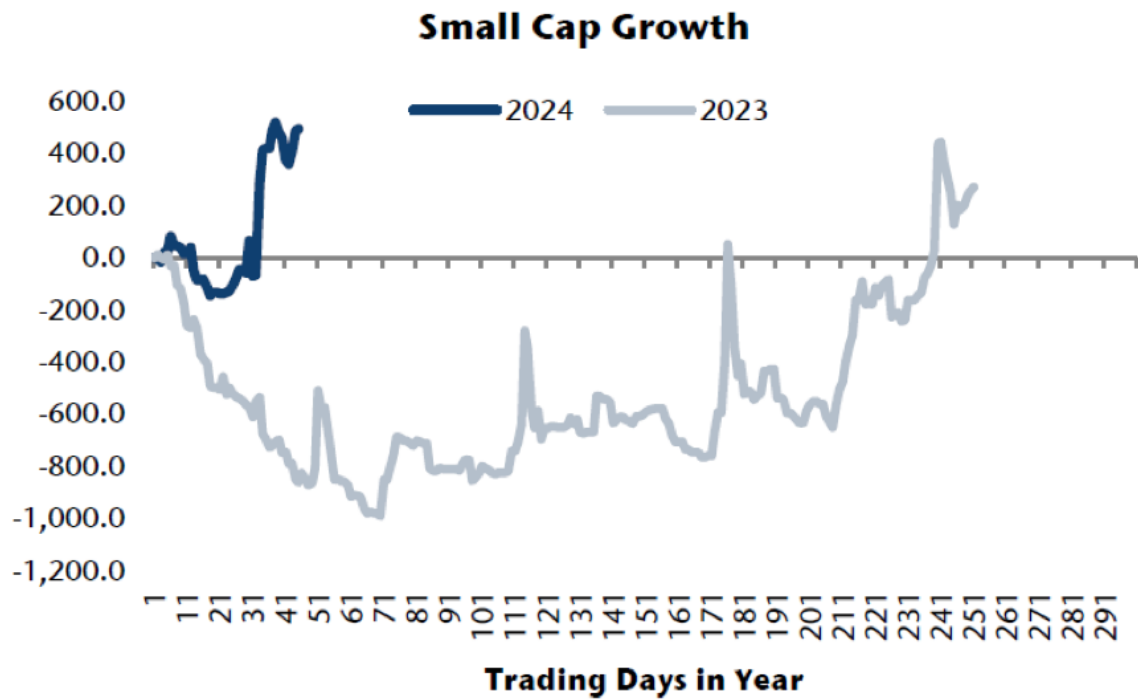
Chart 5: Large growth outperforming small growth by 31ppt...
Large cap growth vs small cap growth (12-mo relative performance)



Source: BofA Global Investment Strategy, Bloomberg

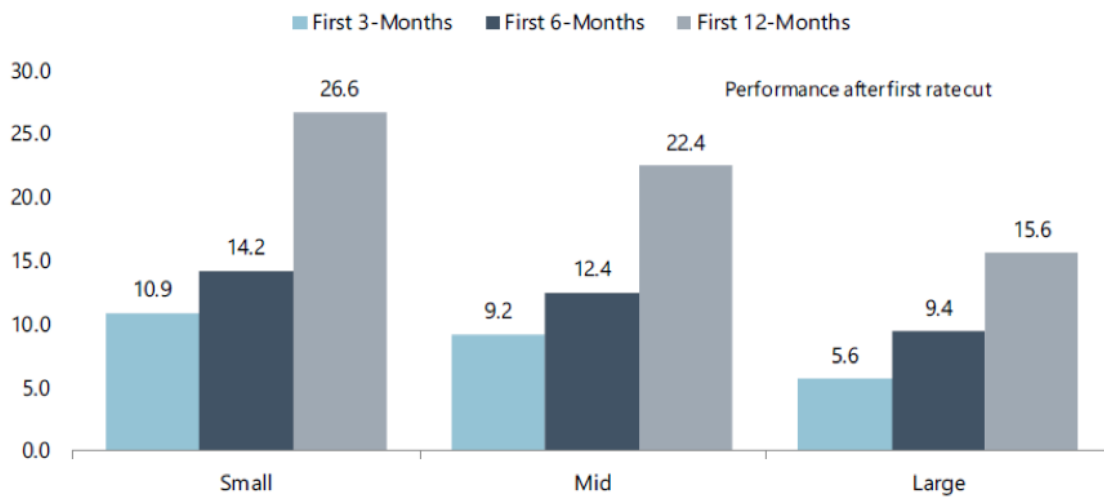
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Cumulative flows (in millions of dollars) for Small Cap Growth nick up



Source: Factset; Jefferies

Performance after first Fed interest rate cut

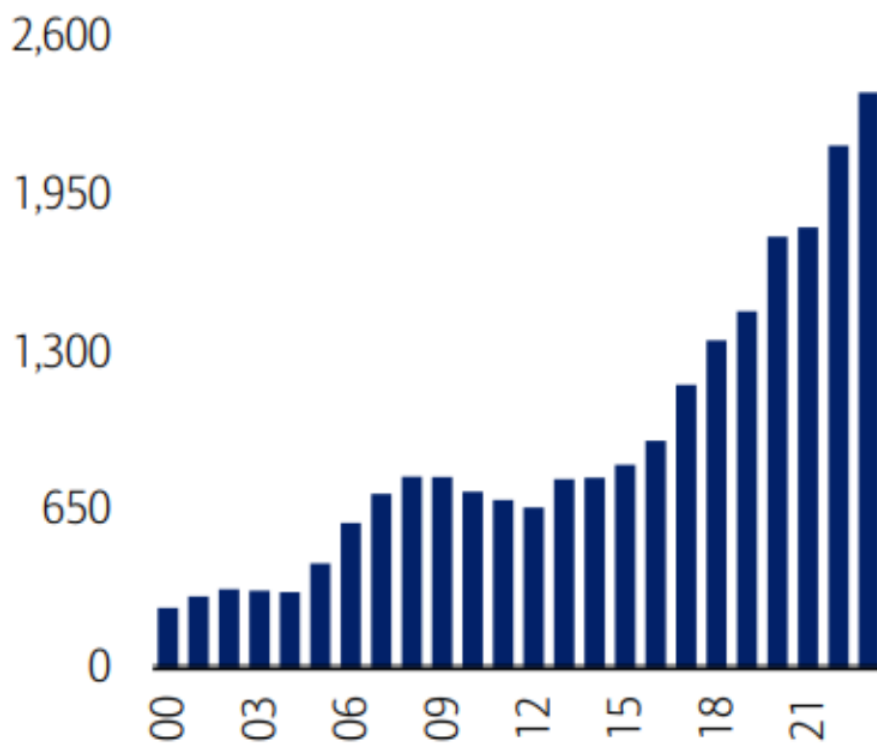


Note: Used Fed Funds from 1954 until 1963, then used the Discount rate from 1963 until 1994 and Fed Funds rate after that.
 Source: Federal Reserve Board; Haver Analytics; Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

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)

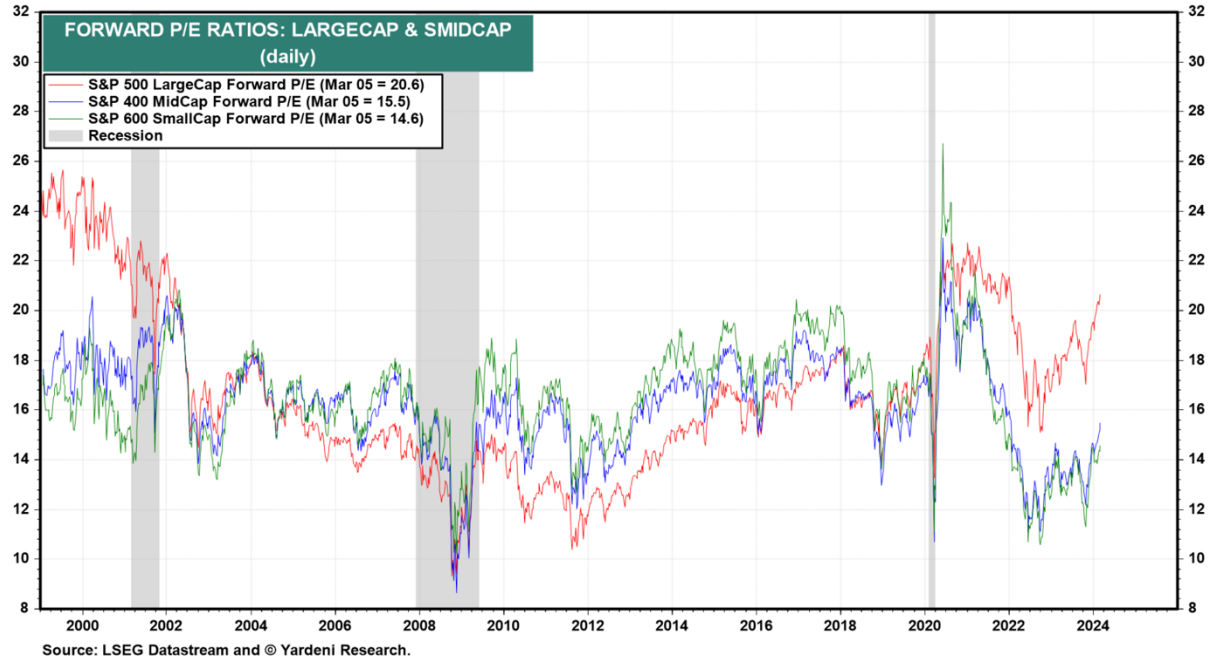


Source: Preqin, BofA Global Research

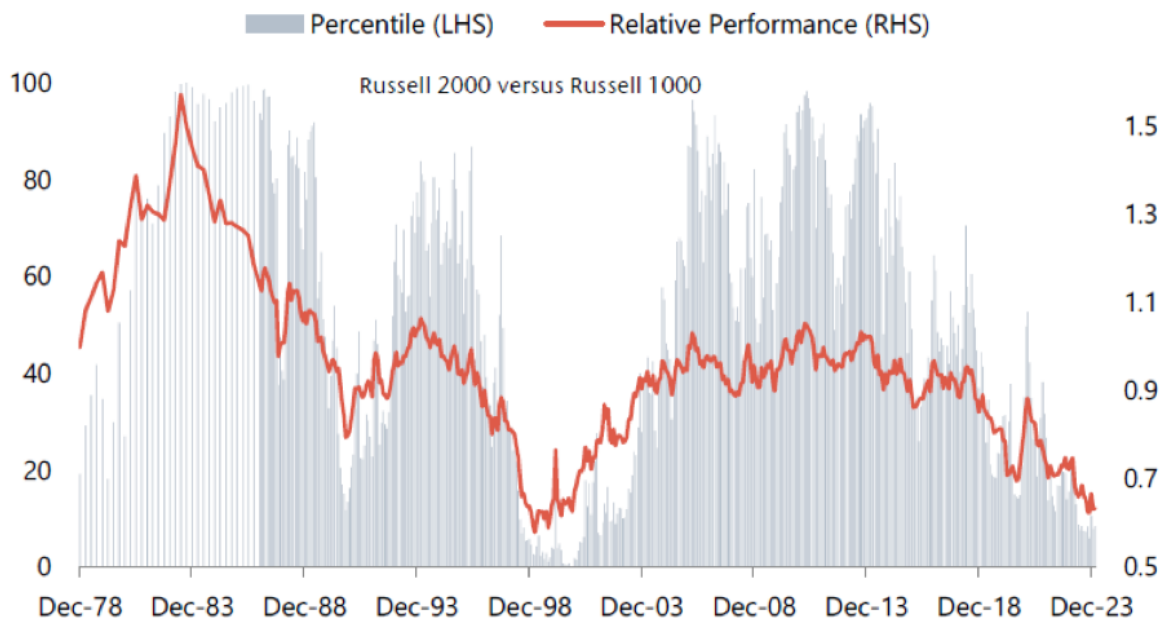
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US Small Cap forward P/E is below long term averages and well below that of US Large Cap Equities

Historically this is the other way round.



Relative Valuation and Relative Performance of Russell 2000 vs Russell 1000



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

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

Large Caps outperformed Small Caps with > 100%.

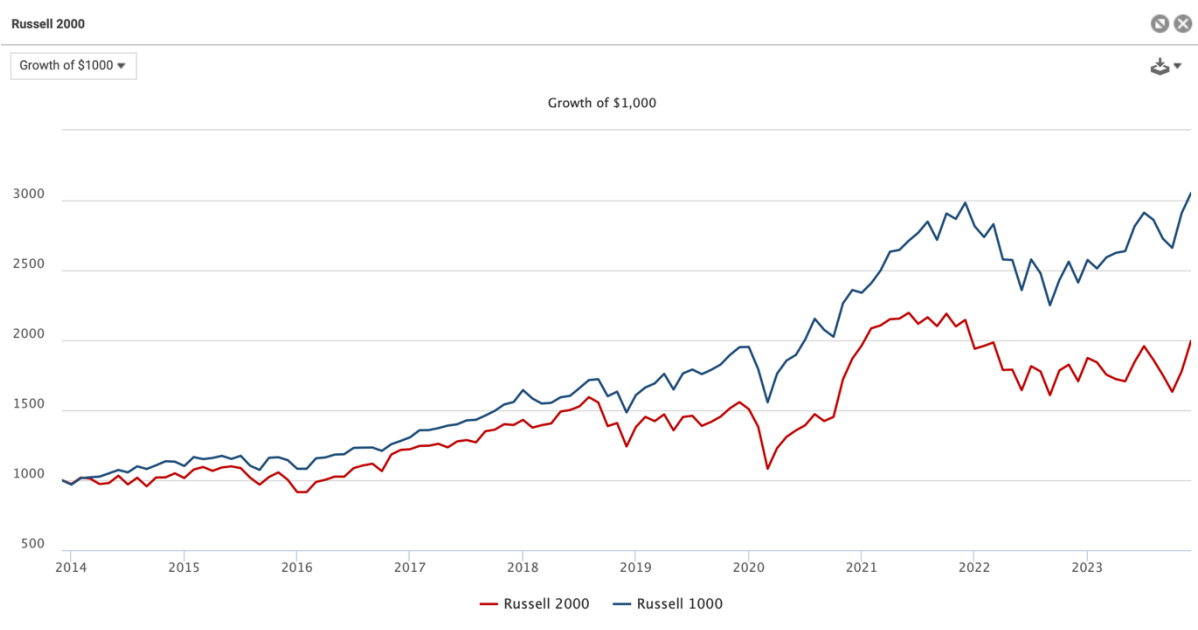
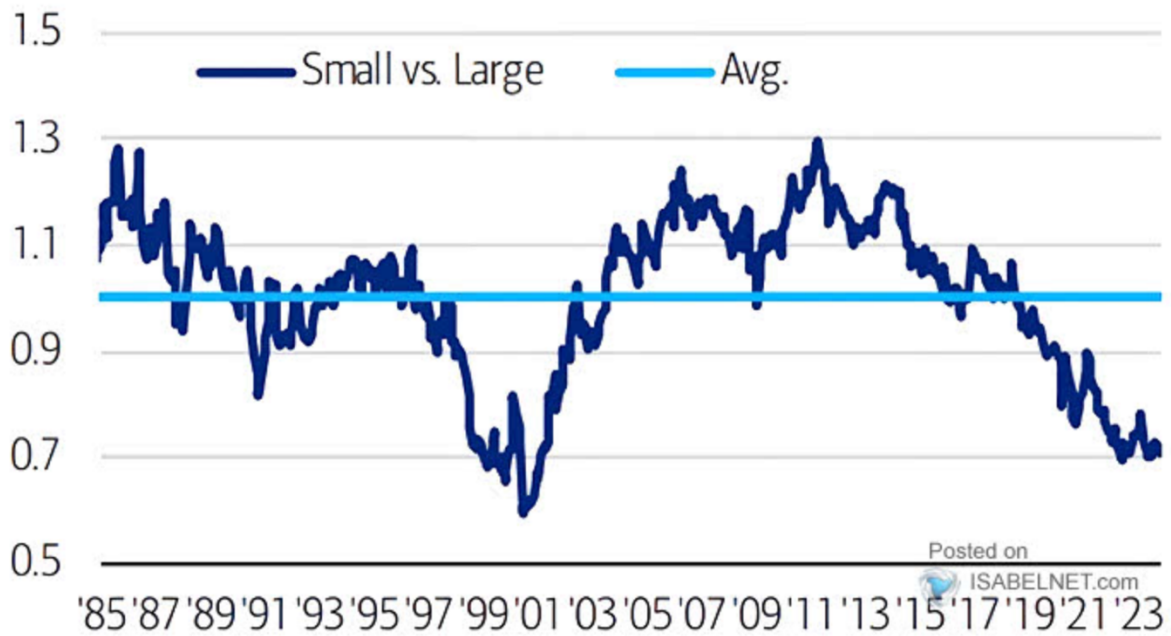


Exhibit 2: Small caps remain historically cheap vs large caps

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

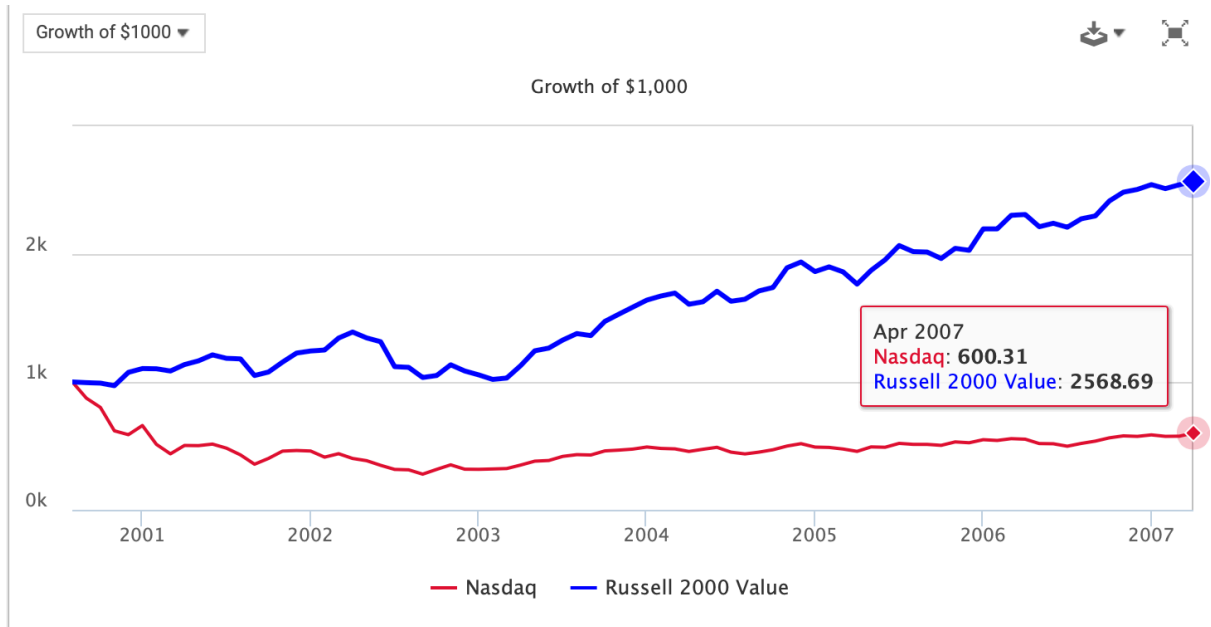


Source: BofA US Equity & Quant Strategy, FactSet

Small Caps/ Nasdaq

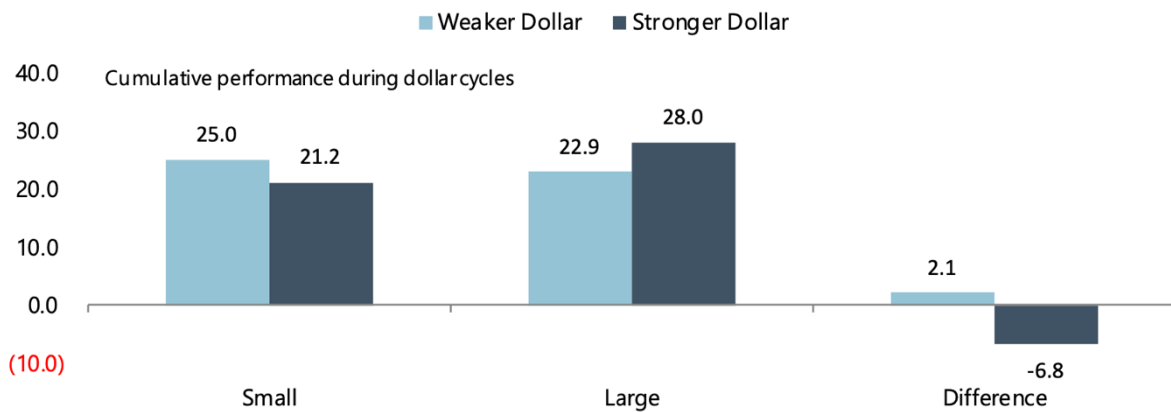


Last time valuation of Nasdaq versus Small Cap Value got this extreme, this is what happened next...



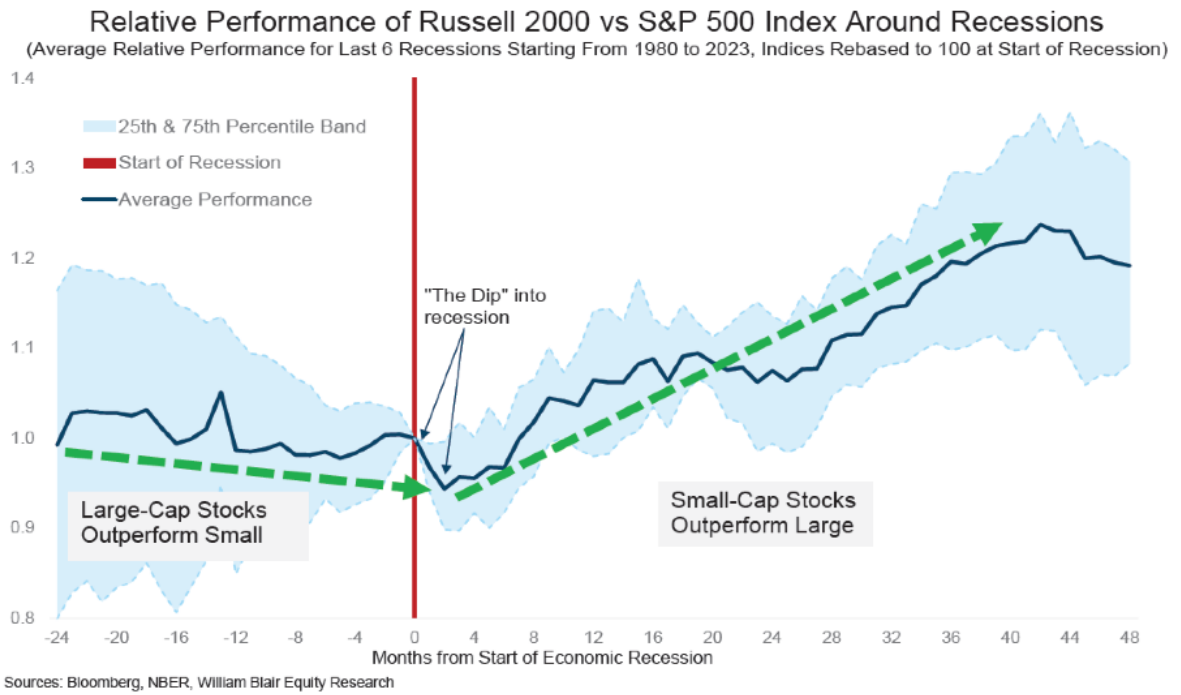
Nasdaq down 40%, Small value up 157%, despite rising rates from 2005-2007

Performance in weaker USD environment



Source: FactSet; FTSE Russell; Jefferies

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

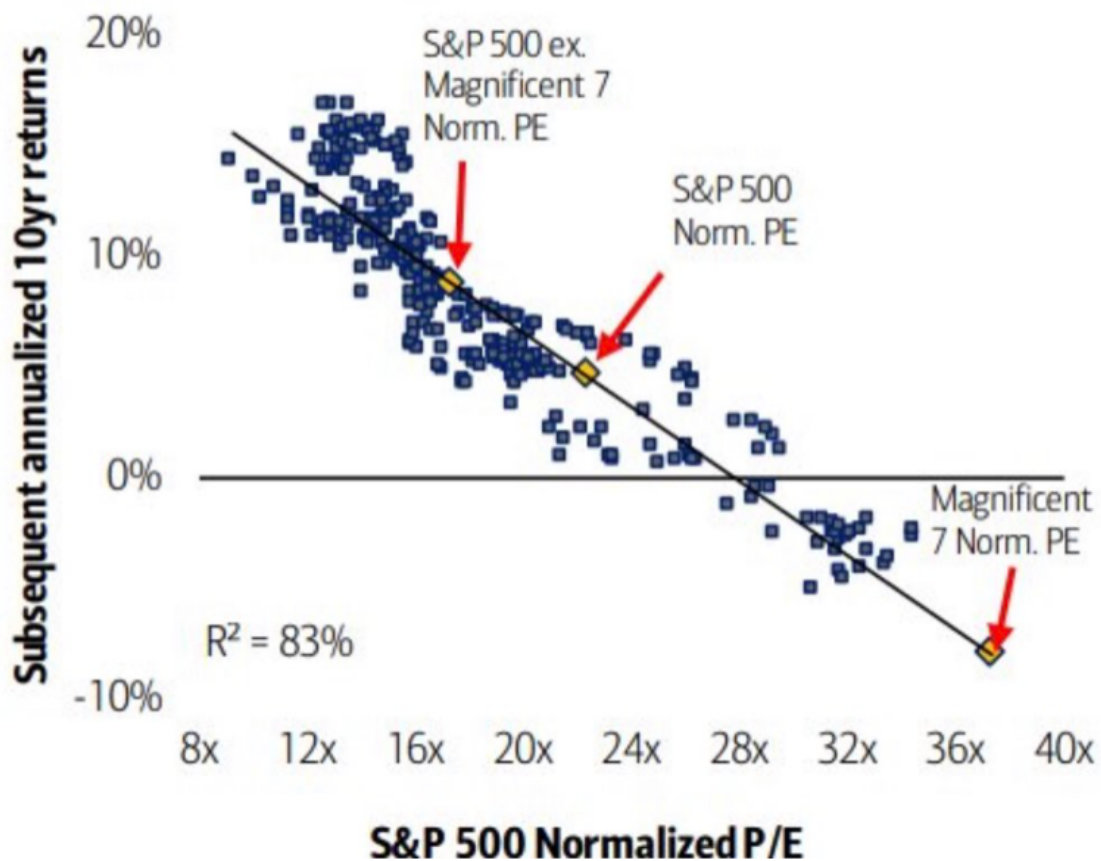
Other related charts:

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)

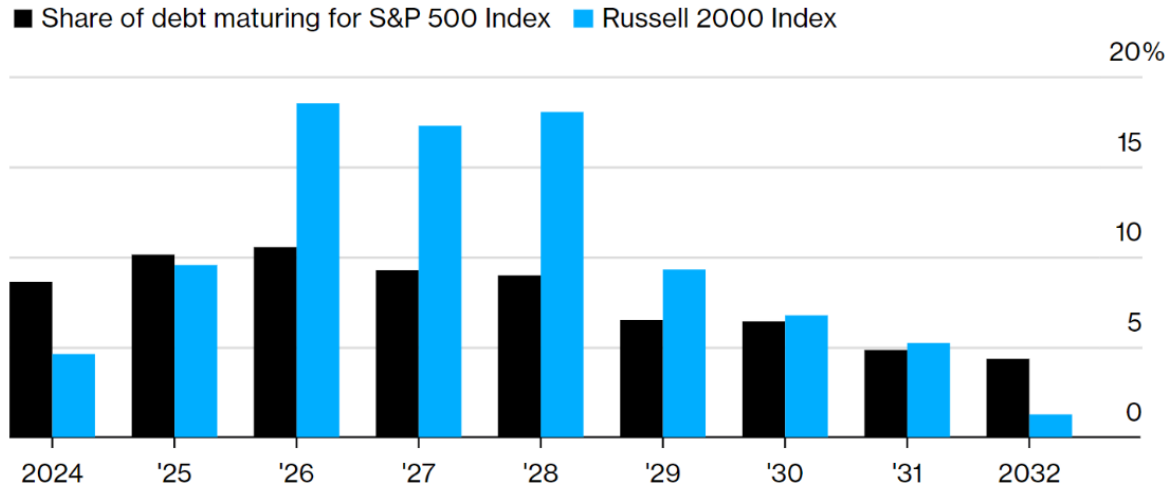


Small Caps have pushed out financing needs, but are typically financed shorter term- have a higher rate sensitivity

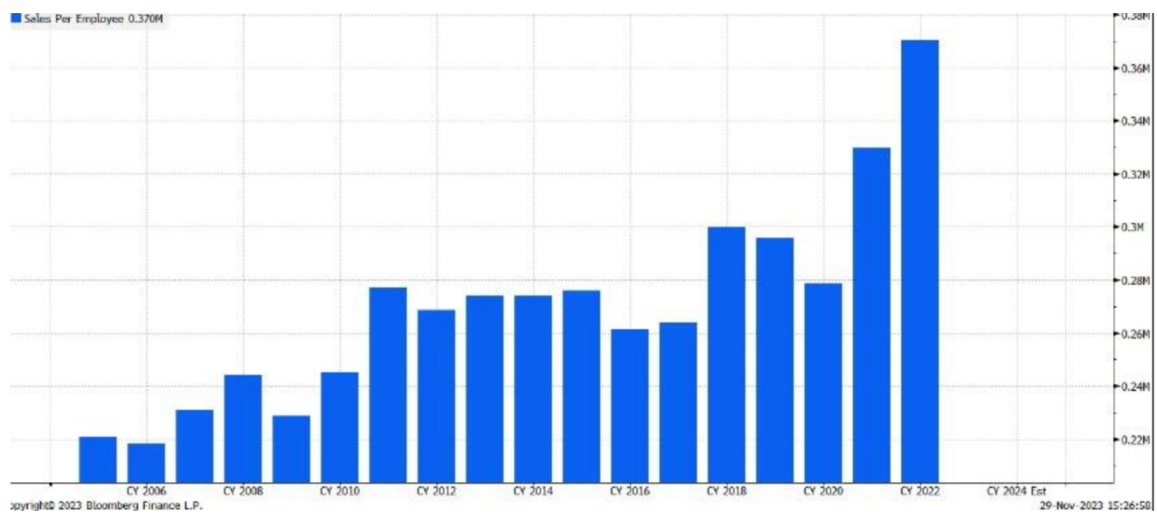
One of the reasons small caps tend to do well in FED easing periods

About Two-Thirds of US Small-Cap Debt Due in Five Years

That compares with less than half for S&P 500 firms

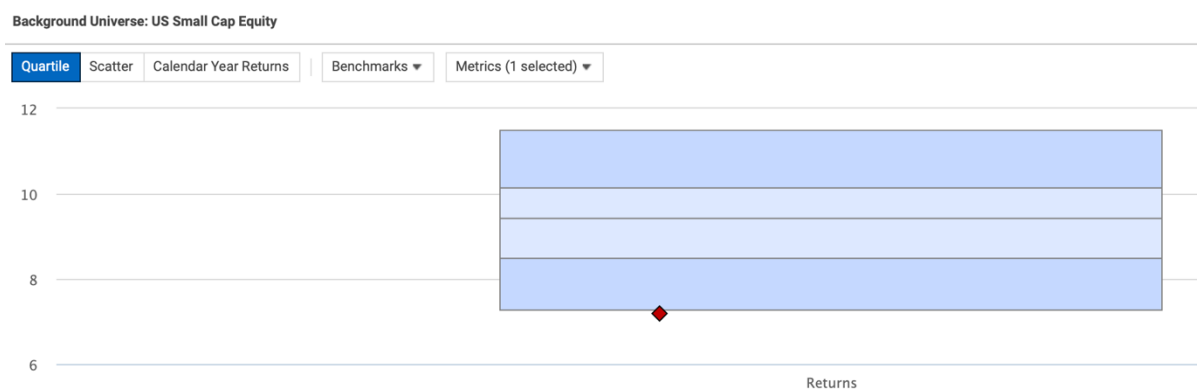


Sales per employee in US Small Caps hit record highs..



Allocate to active!

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



Next Century Growth US Small Cap Growth Equities

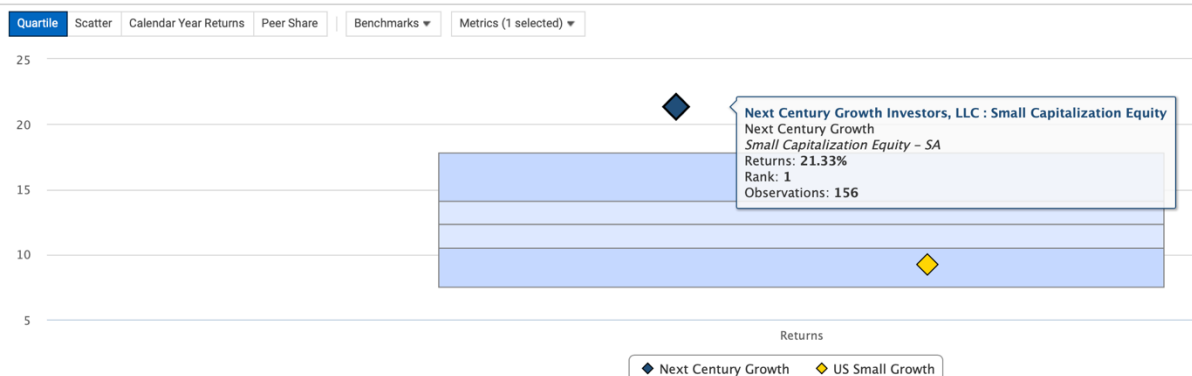
The Next Century Growth (NCG) US Small Cap Growth Strategy is a high conviction, high alpha generating strategy that seeks to invest in the fastest growing and highest quality small cap companies in America. A daily liquid Art. 8 UCITS fund with an AUM of USD 61 million is available. ISIN code: [IE000TY23GV5](#)

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.

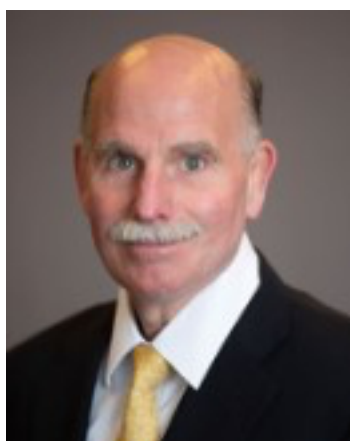
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Next Century Growth strategy beats all US Small Cap Growth peers on a 5 year basis

Background Universe: US Small Cap Growth Equity



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](#)
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- [Standard RfP](#)
- [Morningstar](#)
- [Orchard's approach to ESG](#)
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Founder and CIO Blake Harper



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

Best regards,



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