

We strongly believe US Small Caps are attractive right now, but this update is about how to invest in US Small caps in an intelligent way.

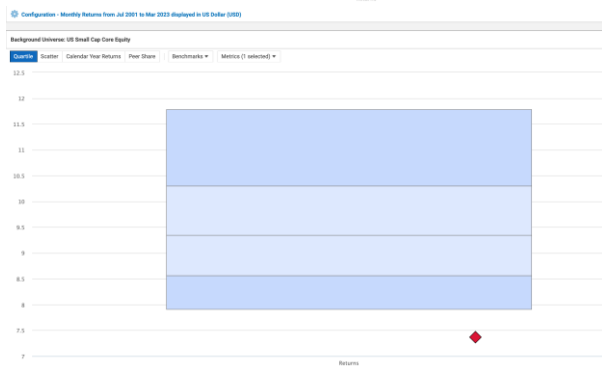
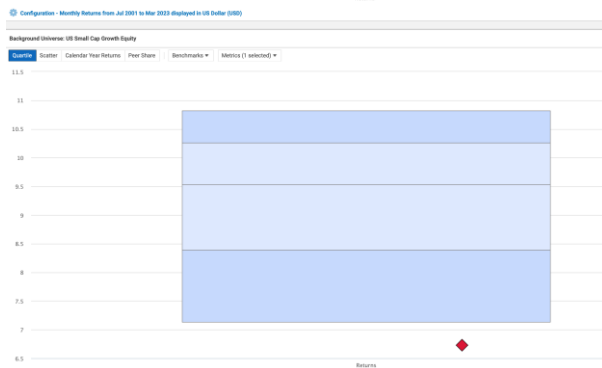
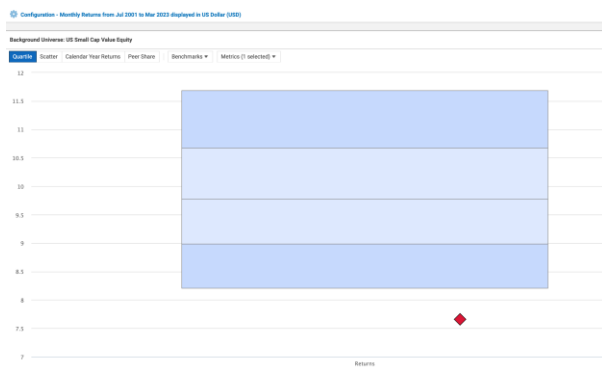
Active vs Passive; Why Growth + Value instead of Core?

1) Active vs passive?

SCG= Small Cap Growth; SCV = Small Cap Value; SCC= Small Cap Core. Source: eVestment (largest asset manager database). Period: July 2001- March 2023 (21.75 years)

- The average US SCG manager outperformed the benchmark with 2.80% annualised before fees (9.53% vs 6.73% for the R2000G)
- The average US SCV manager outperformed the benchmark with 2.11% annualised before fee (9.77% vs 7.66% for the R2000V)
- The average US SCC manager outperformed the benchmark with 1.97% annualised before fee (9.34% vs 7.37% for the R2000)

From top to bottom: SCV, SCG and SCC active universe with in red the benchmark (R200V, R2000G, R2000)



Conclusion:

Active managers outperform in all categories with large numbers. We also looked at various periods; 10y, 5y, 3y, and the picture is very consistent. There likely is a survivor bias, but the difference in performance of active vs passive is very large. Besides, when looking at US Large Caps, active does not outperform despite the same likely survivor bias. One of the main reasons for consistent outperformance of active managers within US Small Caps is the lack of analyst coverage.

Data from Morningstar confirms my conclusion:

" 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) Does rebalancing between Value and Growth add value over Core?

Very long term US Small Cap Value outperforms Growth and Core, but periods in which Growth and Core outperform can be lengthy and painful if you are only allocated to Value.

An allocation to Core might sound logical, but there is less choice, they outperform less often (see Morningstar above) and having a Core manager makes it impossible to rebalance between Growth and Value.

By implementing a **simple yearly rebalancing** between Growth and Value you can add value when combining the right managers. Please look at the light green cells: Since inception in 2001 the combination of NCG and Orchard with a simple Jan 1st rebalancing returns 10.5% annualised. If you would not rebalance yearly this would be: 9.88% annualised.

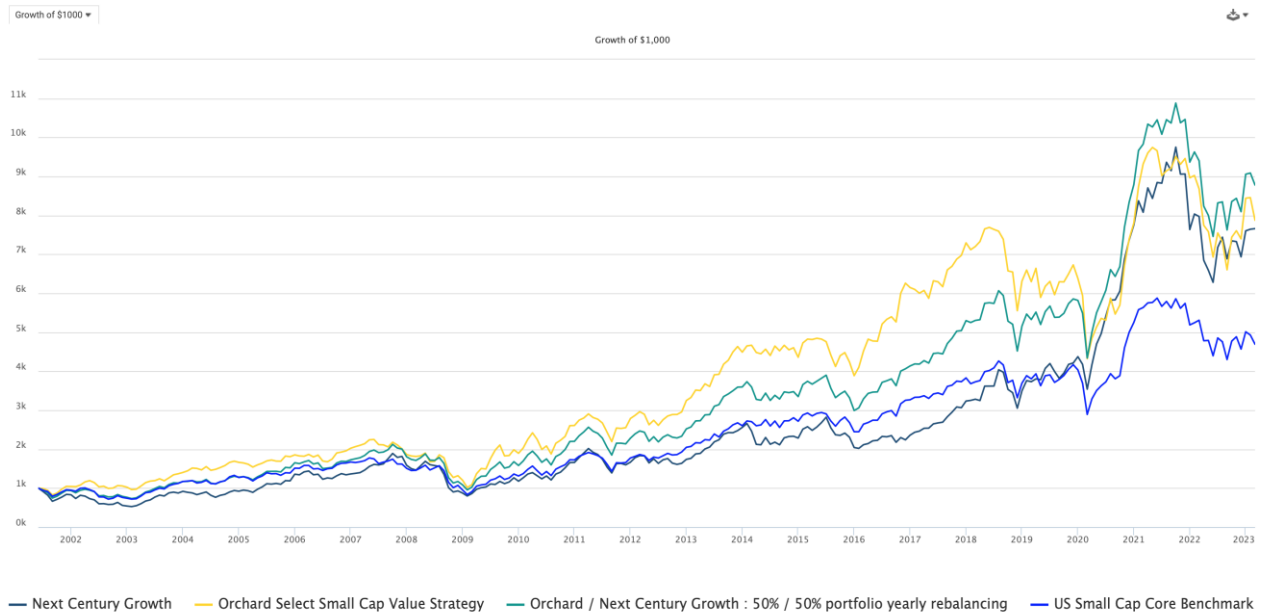
- Hence you add **0.62% annually**
- On top of this you also create lower volatility!

The data:

Statistic	NCG: Small Cap Growth	Orchard: Small Cap Value	NCG / Orchard: 50% / 50% yearly rebalancing	NCG / Orchard: 50% / 50% NO rebalancing	50% R2000G + 50% R2000V yearly rebalancing	Russell 2000
YTD	10.44%	6.45%	8.45%	8.45%	2.71%	2.74%
1 Year Return	-3.90%	-9.28%	-6.63%	-6.59%	-11.63%	-11.61%
2 Year Return	-2.63%	-8.08%	-5.49%	-5.36%	-8.59%	-8.74%
3 Year Return	29.34%	22.14%	26.45%	25.74%	17.70%	17.51%
5 Year Return	18.47%	1.80%	10.60%	10.14%	4.77%	4.71%
7 Year Return	20.18%	8.26%	15.05%	14.22%	8.65%	8.55%
10 Year Return	15.09%	8.39%	12.40%	11.74%	8.11%	8.04%
Returns	9.81%	9.95%	10.50%	9.88%	7.42%	7.37%

Monthly Returns from Jul 2001 to Mar 2023 displayed in US Dollar (USD)

The 1000 USD Growth chart looks like this:



Yearly rebalancing increases returns and lowers the standard deviation, note >3% annualised outperformance for the 50/50



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 22 million is available. ISIN code: [IE000TY23GV5](#)

As per Q1, 2023 the Next Century Growth US Small Cap Growth Equity Strategy has an **annualised outperformance of 5.44%** over the Russell 2000 Growth index since inception in 1999, outperforming 89% of peers in the eVestment database. Next Century Growth is an independent investment firm with a highly experienced investment team located in Minneapolis.

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- [Standard RfP](#)
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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 298 million USD (one of the largest in its category) is available. ISIN code: [IE00BL0L0092](#)

As per Q1, 2023 the Orchard US Small Cap Value Equity strategy has an **annualized outperformance of 2.29%** 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.

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Founder and CIO Blake Harper



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