LISANTI CAPITAL GROWTH

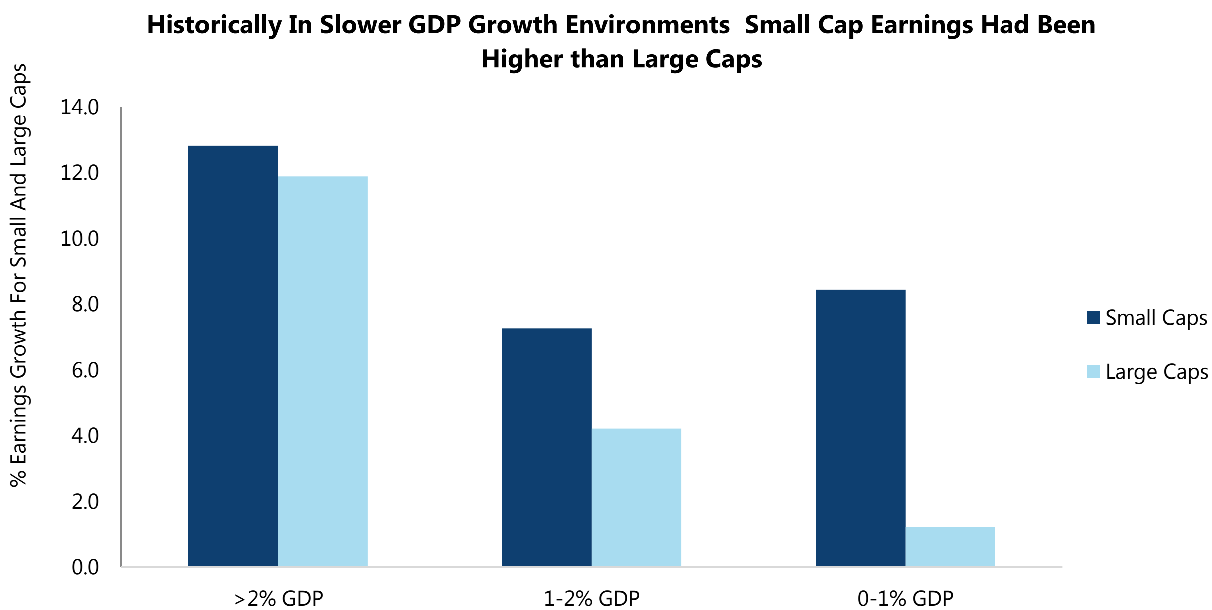
Investing in growth

SMALL CAP STOCKS IN SLOWER GDP GROWTH ENVIRONMENTS

What happens to Small Cap Stocks in Slower GDP Growth Environments?

Even though the small cap market is broad in scope and represents many industries-- including technology, healthcare, consumer, industrial, finance, business services, energy and materials-- smaller capitalization stocks have traditionally been more aligned to the US Economy, and have thus been viewed as more sensitive to slowdowns in GDP than their larger cap counterparts with exposure spread across Europe, Latin America as well as Asia and other emerging markets. Smaller companies also historically have had more debt than larger companies, which is another reason for investors to think of them as more sensitive to changes in GDP.

As you can see from the chart below, while small caps are not immune to slower or negative GDP growth, and they tend to deliver good returns when GDP is flat to higher, history shows that even in slow GDP environments, they offer better return potential than their larger cap brethren.



Note: For Large Caps we use the S&P 500 as a Proxy, for Small Caps we use the S&P 600 as a Proxy.
Actual Data from 1/1/1995 through 3/31/2019, Projected Data from 4/1/2019 through 12/31/2019
Source: FactSet; Standard & Poor's; Jefferies

While the "conventional wisdom" that small caps may not be as attractive in slower GDP environments may have been true several decades ago, and may still be true for the more cyclically sensitive smaller companies, these companies tend to be more "Value" than "Growth". We believe there have been many changes in the economy which have lessened the impact of GDP on many of the sectors and companies that we research as growth investors. While small caps are domestically focused, they have a lot of internal drivers and/or unique and innovative products that allow them to "march to their own drummer". In addition, smaller companies on average are more nimble in identifying and exploiting market opportunities than their larger cap counterparts.

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Insights

Lisanti Capital Growth’s research has found that smaller companies whose earnings growth is less “GDP sensitive” tend to come in three distinct categories:

Secular Growth Companies—these are companies that are the forefront of transformative changes going on in the economy. These companies are changing the way society lives and works. Examples are mobile banking; online experiences; the move to the cloud; targeted therapies (new biotechnology drugs to attack disease states) and artificial intelligence.

Structural Change – These companies are taking advantage of a shift in a particular industry driven by cost reduction, technology improvements, consolidation, productivity enhancements, or political or regulatory changes. An example would be the waste industry, where concerns about the environment, state and municipal regulators have made it very difficult to get waste permits. This has resulted in significant barriers to entry and the need for more infrastructure, which has provided accelerated opportunities for growth for existing market participants.

Transformational Change (turnarounds) – These companies have usually lagged their competitors due to execution issues, or the company has grown beyond management’s ability to structure the business. The addition of new management, a completely new management team, cost reductions, and/or new product initiatives result in a reacceleration of growth and opportunity for these companies.

The structural changes that have occurred in our economy have also strengthened the balance sheets of companies focused on the newer trends in the economy. For instance, the shift towards the service sector and away from manufacturing has led to more stable business models, as companies focused on the service sector tend to have businesses that are less capital intensive, do not carry inventory, and are more predictable than the traditional manufacturing sector, which tends to be more cyclical. While many “knowledge age” companies do not have reported profits, they can often be free cash flow neutral or positive because of their business models, and they do not carry a heavy debt load. That is true for many companies in the technology, consumer, and healthcare sectors, but we are even seeing transformation in the manufacturing sector, where the rise of innovative new technologies is creating more profitable, less capital intensive companies. Most of these innovations are to be found in smaller companies.

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About Us

2Q2019

About Lisanti Capital Growth:
Lisanti Capital Growth, LLC (Lisanti), founded by Mary Lisanti, is a certified woman-owned and managed SEC registered investment advisor specializing in U.S. small- and small/mid-cap (SMID) equity growth investing. In September 2017, Dinosaur Group Holdings, LLC, the parent company of DCM Advisors, LLC (DCM), an affiliated registered investment advisor, acquired a minority interest in Lisanti. Lisanti manages separately managed accounts and is the investment adviser to the Lisanti Small Cap Growth Fund (ASCGX). DCM is an SEC registered investment advisory firm providing asset management and wealth advisory services to institutions, registered investment advisors, family offices and high net worth individuals.

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Kit Yee Martin
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** Years of experience*

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Past performance is not indicative of future results. Investments in small companies carry greater risk than is customarily associated with larger companies for various reasons such as narrower markets, limited financial resources and less liquid stock. Investments in technology companies are vulnerable to factors affecting that sector, such as dependency on consumer and business acceptance as new technology evolves. The Industrial sector can be significantly affected by business cycle fluctuations, worldwide economy growth, government and corporate spending and others.

The views expressed reflect those of the portfolio manager as of the date noted. The portfolio manager's views are subject to change at any time based on market and other various conditions.

Before investing, you should carefully consider the Lisanti Small Cap Growth Fund's investment objectives, risks, charges, and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling (800) 441-7031. Please read the prospects carefully before you invest.

Foreside Fund Services, LLC is the distributor for the Lisanti Small Cap Growth Fund.

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