

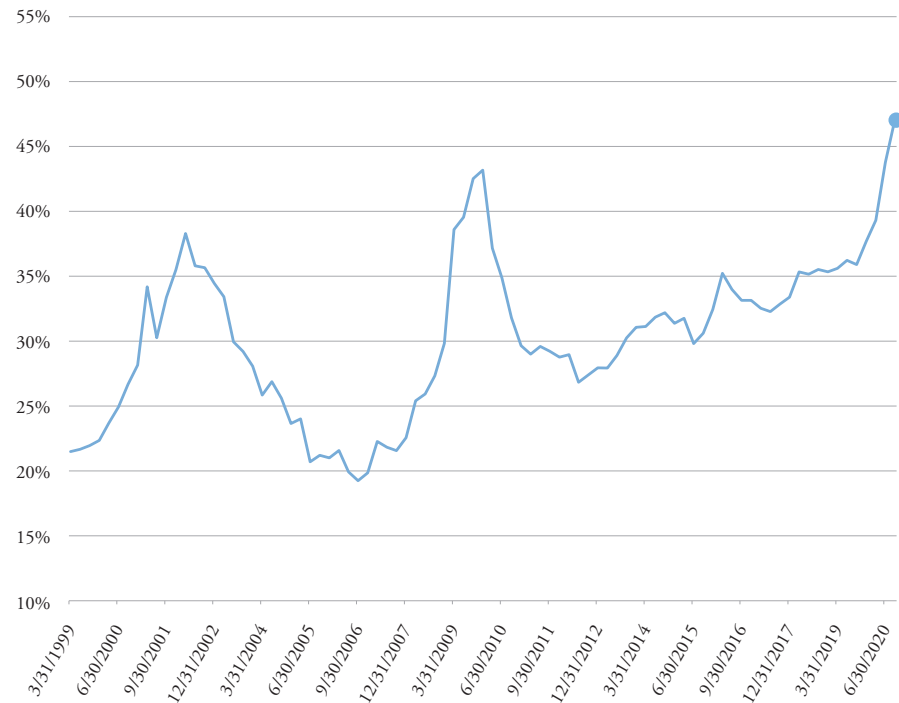
Even before the outbreak of the COVID-19 pandemic, an above-average number of companies in the small cap segment of the market were reporting negative profits despite ten straight years of economic recovery. Through the fourth quarter of 2019, 37.7% of companies in the Russell 2000 Index reported negative profits over the preceding four quarters, and as of September 30, 2020, this figure had risen to 47.1%.

Historically, investing in small-cap companies that aren't generating positive earnings has been a loser's game. Hope seems to spring eternal among many small cap investors that profitability is just around the corner when confronted with a small cap company with a great "story" but no earnings to show for it. However, the historical record shows that unprofitable companies on average tend to lag the Russell 2000 index over the long term.

In recent quarters, companies with negative earnings have outperformed those with positive earnings and the Russell 2000 Index as a whole. However, we believe that this is a reflection of irrational exuberance among small cap investors and not a change in the long-term trend of profitable companies outperforming.

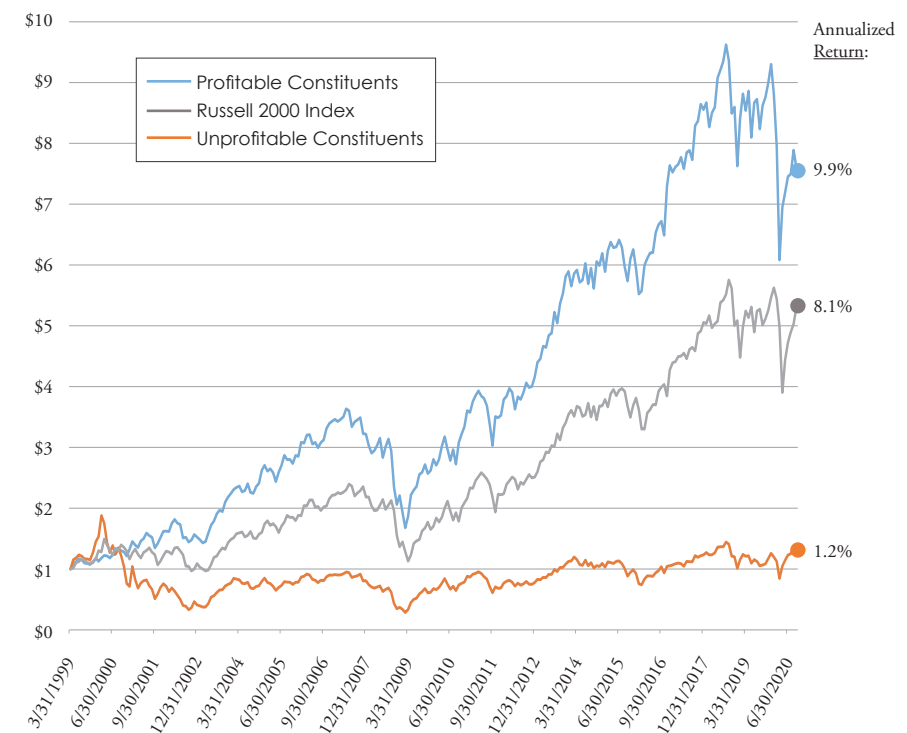
We continue to focus on identifying and investing in high quality small-cap companies with good levels of profitability, along with other positive attributes. We are finding good opportunities in Information Technology, Health Care and Consumer Discretionary stocks, among others. While further challenges await investors over the next several quarters, we believe that a disciplined approach toward stock selection will continue to deliver good long-term returns.

PERCENTAGE OF SMALL CAP COMPANIES THAT ARE UNPROFITABLE Russell 2000 Constituents



Data from 3/31/1999–9/30/2020
Source: FactSet

RUSSELL 2000 INDEX GROWTH OF A DOLLAR



Data from 3/31/1999–9/30/2020
Source: FactSet

DISCLOSURES

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REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

Russell 2000 Index—The Russell 2000 Index is an index measuring the performance of approximately 2,000 of the smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.