LISANTI CAPITAL GROWTH

Small/ SMID Cap Market Outlook 2019

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We continue to be positive on the outlook for smaller cap growth stocks in 2019. Despite the increased volatility evidenced in 2018, we believe that one can make the case for multiyear outperformance for this asset class.

2018 was a tale of two markets: for the first half of the year, investors focused on the strong earnings that companies produced and the strength of the economy; in the second half of the year, investors became increasingly focused on the potential negatives in the outlook. The decline in the fourth quarter of 2018, in particular, was noted for the speed and depth of the decline. While some of the causes of the market decline in the second half of 2018 were structural, the decline was also driven by fundamental concerns. As the economic data around the globe weakened, and the United States housing and auto sales came under pressure, investor concerns grew that the U.S. economy might enter a recession. The level of uncertainty in the outlook, both political and economic, combined with the "end of year" selling from the hedge fund community and tax loss selling, created almost a perfect storm.

While it was a difficult second half, it was a good environment for active small cap managers to add value by exceeding the benchmark returns; we noted that dispersion—which is a measure of the disparity of performance among individual issues that make up the benchmark—increased in 2017. That trend continued in 2018, and we believe higher dispersion may be with us for quite some time, given the cross currents in the economy and the impact of the tax law changes. Many of the companies in the small cap growth universe are higher tax payers; our research has indicated that these companies are reinvesting some of the "tax windfall" into growth initiatives. While the success of this effort will probably follow the typical bell curve of human behavior, it will also probably result in growth rates accelerating a bit (and in some cases, a lot) over the next three to five years.

While we have no crystal ball, from what we see the economy continues to do well. It will most likely slow in 2019, as we lap the tax cuts, but we do not see signs of an imminent recession, nor do we see the types of bubbles that created the 2008-2009 crisis. What we do see is a lot of uncertainty. We believe the global economy is wrestling with secular and cyclical cross currents that "muddy the waters". In the United States, the impact of rising rates has slowed what was already a fairly slow housing recovery, and impacted sales of autos. When the Baby Boomers were the driving force in the economy, a significant slowdown in these two sectors would have caused a significant economic slowdown. However, the Millennials do not buy houses at the pace the Baby Boomers did, nor do they buy as many cars as their parents did. As they become the driving force for incremental spending, these two sectors may continue to struggle. How, then, does our economy continue to grow even with these two sectors slowing? Consumer spending remains decent, because the Millennials spend on other things, such as entertainment and experiences—on eating out and on travel, for instance—and with low unemployment, many of those previously without a lot of disposable income, now have some to spend. Our economy is flexible and innovative enough to overcome these secular issues, and even thrive on them. However, not every economy is. The rest of the developed world seems poised to enter a significant slowdown, as I write this, if not a recession, based on Global and European data. If the rest of the world does experience slower growth, the U.S. may continue to be "the best house on the block", and smaller companies, which tend to be more domestically focused, may have better earnings prospects than their larger capitalization brethren, who are more tied to global economic growth.

If we do not have a recession in the United States in 2019, then smaller capitalization stocks appear to us to be poised for a rebound. Indeed, if one examines the prior small cap corrections, as measured by the Russell 2000 Index, in periods of time where there has not been a recession, the next 12 months' returns have been positive, according to Jefferies Research. Smaller capitalization stocks look inexpensive relative to their growth prospects, again according to Jefferies Research, particularly if no recession materializes; as mentioned above, they could also have slightly better growth prospects than their larger capitalization brethren.

As we look to 2019, we see an economic and political backdrop that is far more nuanced than it was one year ago. We continue to believe that the environment will be "confusing" as the cyclical and secular trends intersect, and we see a clear dichotomy between larger capitalization stocks and the smaller, more domestically focused and more secularly well positioned companies. However, the specter of a trade war with China and the impact of the government shutdown have created a more nuanced economic backdrop, and the extent to which these situations escalate and their final impact is difficult to forecast. While investor fear at this point over these issues is quite high, it remains to be seen if the fears will translate into a dire reality. Again, we thing a more nuanced investment backdrop points toward more dispersion among returns from individual stocks, which we believe will make 2019 a stockpicker's market. In this environment, we are focused on secular growth stories and companies that have a lot of internal drivers of growth. We also believe, based upon our experience, that if the economy slows, those companies with secular growth drivers will be market share takers—capital spending will disproportionately benefit them, as their products and services are of greater value to businesses; the same pattern we believe will hold true for secular growth consumer products and services companies, as they may receive a disproportionate share of consumer spending.

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 US 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 Dinosaur Lisanti Small Cap Growth Fund (ASCGX).

DCM is an SEC registered investment advisory firm established in 2001.

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